View Point

Fintech and its Impact on financial executive

The financial services landscape has been undergoing exponential change on account of the emergence of Fintech players. This view point outlines why CFOs need to be cognizant of Fintechs and how they can coexist and drive growth through collaboration with Fintechs.

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In financial services institutions, Chief Financial Officers (CFOs) play a key role in managing cost control initiatives in line with the growth plans. They are in the driving seat of many such initiatives that not only have a bearing on the profitability of the organization but also its long term sustenance and stability. Decades of existence as the central pillar of the financial ecosystem has made most financial institutions slow on growth and equally slow in lowering cost unless driven to. However, the emergence of Fintechs has shaken this landscape drastically forcing banking organizations to transform and retain their financial stronghold.

In the changing banking landscape, whilst CFOs are enforcing financial husbandry, they are also engaged with how to deal with the impact of Fintechs. A closer look at the top 20 or 50 Fintechs indicates that majority of them would fall under one of the two categories - Payments or Lending. Given that these have been the strongholds of financial services institutions, long term sustenance of the institution would depend on addressing these twin areas effectively. Having their focus on the long term stability of the institution, CFOs increasingly need to take steps to evaluate the following:

- How much exposure they will have with Fintechs,
- How will they manage profitability - on their own or in partnership with the existing Fintechs,
- Is it possible to drive growth through these Fintechs, and
- Is it possible to drive cost down through these Fintechs.

Exposure with Fintech

Having realized the inevitability of Fintechs in the payments and lending spaces, banks are increasingly looking at ascertaining the magnitude and type of exposure they need to have with these new age players. Some of the large global banks like Citibank, Bank of America, Wells Fargo and Societe General are actively in pursuit of Fintechs. Among investment banks, Goldman Sachs is also following this approach.

The intention is to track Fintechs, understand the areas of focus and how they are constructing their business models. Some of the Central banks- Bank of England and Monetary Authority of Singapore have also set up Fintech divisions within to understand the underlying technology and its possible impact on their operations. Fintechs have come to stay and therefore it is better to be watchful. It is worthwhile to get close to them through investment, partnership or with service arrangement.

Profitability management - Own Vs Structured

To achieve profitability, financial organizations can pursue multiple approaches with Fintechs. These include launching Fintech services on their own, acquiring services of startup P2P organizations or partnering with Fintech players along with other financial institutions. Some of the organizations also follow an approach of pursuing financial technology thread through a consortium. An example worth mentioning is R3, the one on Block chain through the participation of 34 odd banks and a similar one in Australia where the top six banks are the participant. Some banks call it an innovation group and some as Fintech. They have budgets to invest in Fintechs they believe could be ideal ally to them.

Models might vary, however, most of them actively participate in and make themselves Beta for the Fintechs to evolve their offering. Bank of America with Android pay and Wells Fargo with Apple pay have evolved new business models for their retail portfolio. Similar arrangements with one or more evolving P2p Lenders such as Lending tree, Lending Club or Funding circle have been resorted to by a few banks.
Till date, there have not been instances of any large bank launching Fintech services on their own. It does not mean they are not working on that. It may come in the near future.

Driving growth through Fintech

The Fintechs focusing on payment as well as lending areas are likely to take away a slice of the existing bank's business. It will be in the interest of CFOs to have a foothold in these areas through exclusive or non-exclusive arrangement with them. Currently the Fintech landscape itself is diverse, with players operating at a national and regional levels - Funding circle present in UK and expanding to other regions, Lending tree and Lending club are operating in parts of Europe beside US, Apple Pay and Android Pay are more national being present in US with Apple Pay beginning to have a foothold in UK. Depending on the type of bank, it is better to have an alignment with the Fintech with similar characteristics so that there is synergy.

Reducing costs through Fintech

Most banks at this time are looking to Fintechs to drive their growth. There is no reliable information on the cost being driven down through Fintechs. However, understanding the need to digitally connect with customers to enhance customer experience across channels, most banks are driving digital transformation initiatives. This is further driving down cost considerably. While there are proven stories of how open-source tools, applications and cloud deployment are driving down the cost of technology, we are yet to see the connect between Fintechs and cost reduction.

Conclusion

Fintechs have been changing the financial institution landscape drastically. While the rise of Fintechs have led to diminishing value of central role played by financial institutions, efforts need to be made to coexist with Fintechs. CFOs, playing a critical role in the stability of the financial institution, need to review and understand the Fintech landscape and arrive at multiple engagement models that are viable from revenue growth and profitability perspectives. Although the decision taken by the financial institution can be to partner, acquire or jointly control a suitable Fintech player, embarking on the right model can make the difference between successful coexistence and failure.

References: An earlier version of this view point appeared in Finextra Blogs - https://www.finextra.com/blogposting/12780/fintech-and-its-impact-on-financial-executive

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