



Retail & Corporate Banking

WHY BANKS AND FINTECHS ARE STILL IN THE HONEYMOON PERIOD

Finance start-ups and traditional banks are now living the honeymoon period; finally convinced that alliances are better than direct competition. There is no question of absorbing a promising start-up to stifle a potential competitor but rather to guarantee the same level of autonomy and conditions specific to these young businesses.

The big bank players have understood that in order to be sustainable, they will need FinTech DNA combined with a focus on consumer needs which have, until now, been poorly served in the eyes of customers.

The process of digitization that the banks have been engaged in for years, is not enough to meet the challenges of the digital revolution in progress – the latter brings in its awakening a deep upheaval of uses. The main challenge resides in the capacity to invent bank 2.0.

Unlike mature organisations such as universal banks, which offer a wide range of products, FinTech companies focus on very specific niche markets with the goal of providing the best value proposition in their segment. These start-ups have no risk of conflict of interest nor the risk of possible impact of a new service over another – they do not need to wait for a series of green lights to launch an app.

The least powerful financial institutions have quickly understood the value in creating alliances with these actors, seeing an opportunity to expand their offering at a lower cost (as well as their income...) The FinTech firms also have the advantage of sharing the same ecosystem and relying on the existing banking infrastructure despite how innovative their services can be. A good illustrative example is Citigroup who recently teamed up with Lending Club, an online lender, to set up a separate unit called Citi FinTech.

The biggest players are no less concerned – FinTech activism, combined with new digital capabilities has considerably modified our relationship to time. It is therefore also due to increasing agility and



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responsiveness that they have multiplied contacts with these small players, through acquisitions as well as incubators or partnerships. They can learn from their operations, including their own innovation clusters, breaking silos for use by projects bringing together all the necessary expertise. This comprehensive remedial process is probably just a start to what is about to happen – similar to what happened in the 2000s, we will still experience a few years of turmoil with an inevitable movement towards consolidation.

In this process, some FinTechs could also aggregate multiple players to become robust financial services platforms to compete with banks, or even add a second “F” to the acronym GAFA, Google, Amazon, and Facebook Apple... For it is these technology giants that banks must especially fear. Managing consumer digital identity is the key to customer experience. If the integration of financial services is required to achieve this, GAFA will have no qualms. In this big fight for creating the strongest customer relationships, the ability to be one with the FinTech world will be the decisive factor.