Co-opetition: the Way Forward between Banks & FinTechs

This article is an extract of our CH&Co. Fintank yearly publication on Innovation for Financial Services. The 2018 edition addresses ways for incumbents to collaborate with Fintechs, Insurtechs and Regtechs through technologies driving the industry’s digital transformation.

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In less than 10 years, FinTechs have become prevalent throughout the financial ecosystem, especially in Retail Banking, and increasingly in Corporate Banking and Insurance. Their cumulative value is now estimated at more than $867 billion worldwide, and the number of FinTechs is estimated to be 10,500 globally, compared to 4,400 in 2010.

Some banks estimate that they will lose 25% of their market share by 2020, notably on fund transfer, payments and asset management activities. However, the disruption is not yet a reality for 2 main reasons:

- There is a lack of trust from consumers who are not ready to leave traditional banks for new players; at least not entirely
- The FinTech ecosystem entered a consolidation phase with increased competition and high market access costs

The digital revolution will completely reshape the Financial Services Industry, namely through Big Data and Robotic Process Automation.

As illustrated by the World Economic Forum, by 2025, the digital revolution will completely reshape the Financial Services industry, namely through Big Data and Robotic Process Automation (RPA).

1. BCG – Accelerating Bionic Transformation
INCUMBENTS AND FINTECHS: MOVING TOWARDS A MODEL OF “CO-OPETITION”

After an observation phase, the time has come for reconciliation between incumbents and FinTechs. The trends outlined in our last booklet still hold: it is possible to organize a win-win approach despite the differences.

What FinTechs can expect from retail banks:
- Banking competencies and culture
- Access to customer databases
- Regulatory and Risk Management expertise
- Access to financial support

What retail banks can learn from FinTechs:
- Culture of innovation and technological skills
- Improvement of existing services and launch of new ones
- Agility and low time-to-market cycles

Nevertheless, partnerships do not come easy and need to be accompanied, thereby entering a model of “co-opetition” (cooperation + competition). In the following section, we distinguish areas of cooperation and areas of competition between incumbents and FinTechs.
Areas of cooperation

A natural level of cooperation has emerged between incumbents and FinTechs that can cope with operational constraints.

- **Regulatory**

For example, in the UK, banks spend an average of €47.8 million per year on KYC compliance. FinTechs bring their know-how to automate many KYC related processes and tasks with the use of technologies stemming from the field of Artificial Intelligence. For example, they can deliver interactive mapping of a client and its structure, which can generate a monitoring system, as is the case with the French start-up KYC3, or software companies such as Thomson Reuters, LexisNexis, Factiva, and Invoxis, among others. In addition to these screening and mapping solutions, companies are looking to facilitate KYC data hosting and reuse; for example, KYC.com allows companies to host their data in the cloud and participants can grant access by sharing their key with their financial institutions.

- **Robotics**

Robotization is a natural area of collaboration between banks and FinTechs, specifically on operational and commercial productivity issues. In Retail Banking, it now mainly concerns chatbots and RPA. The following figures allow us to get a sense of the issues related to the robotization of Financial Services:

- 40%: the percentage of companies that have already implemented bot solutions. This figure is estimated to reach 80% by 2020
- €1 Billion: the estimated market of Chatbots by 2024 vs. €150 million in 2016
- 85%: the percentage of interactions with customers that can be directly replaced by RPA software
- 1/3: the cost of an RPA robot compared to that of a senior level manager

Incumbents have three major objectives in pursuing cooperation:

- **Revenue growth**: expansion of product and service offerings, acquisition of new assets
- **Client acquisition**: target younger clients and mass / mass-affluent segments
- **Cost reduction**: automation of internal tasks, automated customer services

Areas of competition

Competition between FinTechs & banks is still fierce when it comes to customer relations and access to data.

- **Relationship and Customer service**

Faced with a standardized offer, the customer values expertise and service, two elements where banks are being challenged by FinTechs. The success of FinTechs serving the end customer (“B2C”) such as Revolut, Atom Bank or N26 is due to the fluidity of service, before consideration of product quality. 24/7 availability, omnichannel access, and 100% online customer journey are among the new customer relationship standards. The same goes for SMEs, which explains the success of new online payment solutions and money transfers firms, like Hipay in France.

Traditional retail banks are now targeting these new standards of service quality. On the other hand, advice and expertise are differentiating factors for the banks, which are, for the moment, still regarded as more legitimate in the eyes of customers.
Use and protection of data

In Europe, the implementation of the DSP2 directive adopted by the European Commission aims to lower barriers to entry, increase consumer protection and harmonise regulations across payment methods for online payments. This initiative is meant to serve the customer’s interest by providing access to a broader offering, better prices and more targeted proposals while increasing consumer protection. Implementation of the directive will result in open access to bank accounts (with the client’s agreement), emergence of new players in the field of account information services (AIS) and payment initiation services (PIS).

As the implementation date approaches, the relationship between banks and FinTechs is hardening. Sixty-five European FinTechs (Bankin’, Budget Insight, Linxo, LaFinBox, N26, and Kontomatik, among others) signed and issued a manifesto “to safeguard the spirit of the DSP2 Directive”. The issue at stake is the method to be used to access data for FinTechs: direct access or via API.

CONSIDERING PARTNERSHIPS: “COLLABORATION IS BETTER THAN DISRUPTION!”

In this context, we have identified 5 avenues for traditional banks to approach “the FinTech threat”: a) Creation; b) Integration; c) Partnership; d) Financing; and e) Acquisition.

According to a major industry survey, almost one in two (45%) traditional banking players has partnered with a FinTech, compared to only one-third one year ago. This trend is expected to progress, as 82% of banks plan to increase these partnerships over the next 5 years.

Another notable development is that one-third (31%, compared with 22% in 2016) of traditional financial companies are now close to integrating these new services into their own offers, notably to accelerate the “time-to-market” cycle. 60% consider that “the emergence of FinTech represents an opportunity to develop their range”.

2. PwC - Redrawing the lines: FinTechs’s growing influence on Financial Services
Nevertheless, 82% of traditional players (compared with 83% in 2016) believe that they may lose part of their activities to FinTechs. This is especially true in the payments sector (cited at 68%), personal loans (58%), and fund transfers (56%).

The following example of BBVA illustrates these different kinds of collaboration:

- **Creation**: BBVA has invested approximately €3 billion euros in its digital transformation (technology, skills, working methods, workspaces ...)

- **Integration**: BBVA was able to incorporate Simple and integrate its teams without destroying its ability to innovate: the new shared account, Simple Shared, is an illustration of this

- **Partnership**: BBVA chose to outsource its equity investments in FinTechs to Propel Venture Partners

- **Financing**: BBVA has recently raised its venture capital fund dedicated to financial technology to $250 million (compared to $100 million in 2013)

- **Acquisition**: Finally, the bank also took a 29.5% stake in Atom Bank for $68 million, in a move for its board to have greater understand and visibility into what was happening in the world of FinTech

If the example of BBVA remains rare in Europe, it proves that this fruitful collaboration is possible.

The BBVA models of collaboration

**FINAL WORD**

At Chappuis Halder & Co., we believe that the rise of GAFAM (Google, Apple, Facebook, Amazon, Microsoft) and the arrival of the Telco players (for example, Orange Bank) present a greater challenge for banks. Retail banks and FinTechs have a common future that will lead to a value-creating ecosystem, for both companies and customers: “collaboration is better than disruption”!
Acknowledgements & Contacts

CH&Co. Digital Expertise

We are deeply involved in growing the global FinTech community and use our knowledge to enhance our public Fintank.net database. We cofounded FinTech hubs, such as FinFusion in Montreal or Finance Innovation in Paris, and regularly co-organize FinTech meetups in New York, Singapore, France, London and Geneva. The events unite leaders from the Financial Services industry, startups and other innovators featuring panel discussions, demos and insights from our FinTech experts that are among the world’s top influencers.

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Your FinTech Database

THE INNOVATIONS THAT MATTER

Our comprehensive database of company profiles covers a full range of financial services solutions from FinTech start-ups to large corporations. Each case study contains a thorough overview of the company’s solution, business plan and strategy. We also know that implementation is key and we strive to provide a repository that will help inspire the development of disruptive innovations by sharing insights on breakthrough ideas blossoming all over the world, including best practices and recent trends.

FinTech Directory

Want to invest in FinTechs? Fintank is the place to get an international list of start-ups in the Financial Services industry.

CH&Co. Lab

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Innovation Booster

CH&Co.’s methodology around crystalizing energies in corporate organization to foster innovation – inspired by start-ups’ approaches and business practices.

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