Banks and FinTech: friends or foes?

A new wave of financial technology companies, FinTechs, has emerged with solutions covering most of the complex aspects of the banking value chain. What does it mean for traditional banks and will they evolve accordingly, asks Umair Hameed.

Traditionally, banks would take end-to-end ownership of providing all aspects of their products and services to customers. They would go to great lengths to identify potential clients, market and sell their products and services to them, and thereby earn interest or a fee-based income.

Eventually, there was some decoupling of the value chain as the outsourcing trend emerged. Banks started to outsource various aspects of their value chain, such as call centers, sales teams, card issuance and so on, to third-party service providers, whilst benefiting from cost savings. At the same time, banks continued to retain the more complex aspects of their value chain in-house, such as know-your-customer (KYC), client on-boarding, risk and liquidity management, and reporting.

However, in the last couple of years, a cohort of FinTechs has emerged offering specific solutions across most of these aspects of the banking value chain. Unlike most banks, which are lumbered with corporate bureaucracy, legacy systems and processes, and costly infrastructure, FinTechs are often able to bring their products and services to market in a more effective and efficient manner.

In fact, the scale and extent to which FinTechs have emerged, was evident in the recently concluded Abu Dhabi Global Market (ADGM) FinTech innovation challenge⁸, where over 160 FinTechs came forth with solutions for 15 different problem statements. The finalists showcased an array of solutions based on blockchain, robotics and AI.

**Triple check**

These FinTechs can broadly be categorized into three types, those that:

a) Sell to a bank: including those geared towards parts of the banking value chain that are generally invisible to the customer, such as transaction monitoring, customer analytics, regulatory reporting

b) Sell through a bank: these help the bank to better serve its customers with, for example, authentication, chat bots, robo-advisors, and financial management

c) Compete with a bank: these solutions focus on peer-to-peer transactions including payments, remittances, lending, borrowing, mobile wallets, where FinTechs are able to offer customers lower transaction costs, more conveniently, anytime, anywhere.

It would be natural to assume that the first two types of FinTech solutions could bring much needed innovation in the banking sector, as they would help banks derive operational efficiencies whilst improving customer experience. Based on our extensive discussions with banking clients in the UAE, however, the extent to which they are embracing these solutions is still fairly low.

Banks either cite regulatory constraints or in other cases opt to establish in-house innovation centers to develop their own solutions, which, in many instances, tend to be costlier and more time-consuming, rather than seek to embrace a FinTech solution.

As for the third category, FinTech solutions that compete directly with a bank on specific aspects of the value chain, banks do not appear to be worried, as they believe that when the time is right, they can always acquire them.

**No blank check**

At the same time, despite the agility and nimbleness of FinTechs, banks also have the upper hand when it comes to scale and resources, something that most FinTechs need in order to grow their business from scratch. In such circumstances banks and FinTechs could look for ways to collaborate in a mutually beneficial manner.

Banks and FinTechs, however, both still have a long way to go when it comes to taking banking to the next level. Existing efforts, even from the FinTechs, have largely been iterative and incremental. Organizations are still...

---

trying to find ways to offer the typical banking products (current account savings account (CASA), credit cards, loans and payment services) in a more convenient, cost-effective manner, rather than thinking about how today’s – and tomorrow’s – bank actually needs to look and feel like.

Friends or foes, banks need to collaborate with FinTechs to innovate in order to stay relevant.

When the world’s largest transportation company (private taxi hire), the largest accommodation company (online holiday rental), the largest retail companies (online books and other goods) and the largest media company (a video search engine) are all pure play technology companies with none of them having had a legacy conventional business to begin with, then how long will it be before the world’s largest financial services company becomes a technology one? Will it be a bank that embraces FinTech or a FinTech that fully embraces banking? Based on current form, it is more likely to be the latter, I would say.

Umair Hameed
Partner | Advisory
T: +971 5 0658 4486
E: uhameed@kpmg.com

Umair is a management consultant with 15 years’ experience advising and collaborating on complex business transformation initiatives across the Middle East, North Africa, South-East Asia, the USA and Europe. He has a particular focus on Financial Services innovation, FinTech and RegTech.

“Will it be a bank that embraces FinTech or a FinTech that embraces banking?”