WHITE PAPER

BANKS, FIN•TECHS TEAMING FOR SUCCESS

Good Guys Emerge in Banking Showdown

The tried and true methods of traditional banks still hold strong, but modern technology offered by FinTechs presents new opportunities for innovation.

With both sides bringing significant value to the table, the benefits to partnering are looking increasingly beneficial.

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Magenic®

There's something of a showdown taking place in the global banking sector.

On one side are the old-school traditional banks with their legacy of tried-and-true financial practices and established guidelines for conducting business. On the other are the nimbler FinTechs fully embracing new technologies allowing for multi-channel transaction options, peer-to-peer lending capabilities and better customer segmentation. A 2016 report by **McKinsey** points to some 12,000 recent startups offering new and traditional banking services, and nearly $23 billion in venture capital and growth equity deployed to FinTechs in the past five years.

Both sides bring considerable strengths to the arena, and as such the biggest winners are often those combining the talents of the slickest, most agile gunslingers and the steady, more experienced sharpshooters.

As a result, a new spirit of cooperation is developing. Some of the most able FinTechs are working with banks to leverage their reputation for trust, loyal customer relationships and stability based on years of regulation, while savvy banks are snapping up opportunities to team with newcomers to create new products and optimize digital banking capabilities. In fact, 40 to 50 percent of banking CEOs in the U.S. budgeted for "substantial increases" in technology this year, according to **American Banker**, with the biggest improvements slated in security, compliance, online banking, payment software and "bring-your-own-device management" (i.e., structure dictating banks' use of employee hardware).

Big guns on both sides

Banks still hold many important playing cards. According to McKinsey, they're systematically important to the economy; they still hold a virtual monopoly on credit issuance and risk taking, are the major repository for deposits, are gateways to the world's largest payment systems and still attract the bulk of credit requests. However, they're challenged by the massive increase and transparency in data and the skyrocketing mobile use making some of their manual transactions obsolete, especially among millennials. And of course, the financial crisis didn't exactly further consumer trust in financial institutions.

For their part, FinTechs are projected to become increasingly successful in five major retail-banking businesses: consumer finance, mortgages, lending to small and medium-size enterprises, retail payments and wealth management. McKinsey projects that 10 to 40 percent of bank revenues (depending on the business) could be at risk by 2025 if FinTechs are unmitigated. Their advantages are slated to include their lack of physical distribution costs; their increasingly innovative use of data and their ability to cherry pick markets amenable to their products.

But the newcomers have their own hindrances: McKinsey notes FinTechs not partnering with banks will need to find cost-effective ways to add customers, and they may soon be slowed by regulation when they previously operated in a fairly open environment.

Getting in cahoots

When determining whether to partner or disrupt, financial institutions should objectively evaluate opportunities for improving speed, quality, customization, complexity and data optimization, notes Heather Zimmerman, Magenic's financial service practice leader.

"Banks need to ask themselves 'If I were starting a bank from scratch today, how would I develop everything?" Zimmerman advises. "Basically, banks should forget about constraints they might be currently facing. Instead they need to think how they can best innovate, even if that means partnering with a FinTech that might not immediately seem a perfect match for their current setup."

Such revolutionary changes may be difficult for longtime banking institutions entrenched in the old ways, but they're also crucial to survival in this highly competitive and constantly evolving environment. Failure to invest in secure, agile systems that can optimize digital and mobile banking could open up legacy banks to a significant loss of market share and perhaps a greater risk of cyber attack.

The key is to think about what today's customers really want, then figure out how to provide it regardless of the necessary trade-offs.

"These kinds of mergers will doubtlessly be challenging," Zimmerman adds. "But banks aren't in a position to back down from that challenge. Fortunately, professional assistance is available that can make the whole process much easier for all involved."

Magenic can be a conduit between banks and FinTechs, providing both technical expertise and acumen on how to innovate within the banking scheme. Contact us at **877-277-1044** or **info@magenic.com** for a consultation.

About Magenic

Magenic is a leader in business technology consulting. We understand the barriers to innovation companies are facing and apply the right technology to transform their business.

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