Open Banking, FinTech and Platform

The Trifecta for Banking Innovation

Banking Turns Open and Collaborative

Three years is a long time in the global banking world. During 2015 to 2017, when the FinTech trend began to take root, incumbent banks viewed the new competition with a measure of apprehension. A chief concern was how their creaking legacy systems, some of which were more than 50 years old, would compete against the nimble, innovative models of FinTech upstarts.

Gradually there has been a perceptible change in attitude and approach. In the past year or so, both banks and FinTechs have realized that there is more advantage in joining their complementary strengths than pitting them against each other in the marketplace.

The realization couldn't have come at a better time. In several parts of the world – Europe, Australia, India and elsewhere – open banking is either being mandated or encouraged by the government, leaving banks with no choice but to share their customer data and development environment through APIs with authorized third parties, such as FinTech companies, in their financial ecosystem. [6]To their credit, banks are responding positively: in a recent global survey on payments, 87 percent of the respondent banks claimed to have a strategy for open APIs, significantly more than the 59 percent who said the same thing a year before.

Take that as a signal of banks' acceptance of the new reality of banking – open, collaborative, and ecosystem-driven. In this reality, incumbents are shedding their universal model of linear value chain to gradually transform into platform-based financial marketplaces with a wide set of own and rival offerings to fulfill not just the financial needs of customers but also others, ranging from travel and leisure to shopping and education. The transition to a platform model is no surprise, given that in less than a decade, the leaderboard of companies by market capitalization in the United States has changed from Exxon, GE, AT&T, Microsoft and P&G to Apple, Alphabet, Microsoft, Amazon and Facebook, all of which have very substantial platform plays.

Bank-FinTech Partnerships

FinTech companies are essential for a thriving financial services marketplace and for a successful platform bank. FinTech-bank relationship in today's open API environment come in a variety of forms. In the first one, the bank itself creates a digital subsidiary with FinTech flair for its digital operations: examples include a Goldman Sachs subsidiary called Marcus, digibank from DBS, and Greenhouse by Wells Fargo.

Another model is one where a FinTech firm with a niche offering evolves into a full-fledged, digital, challenger bank. Atom Bank and Monzo in the United Kingdom, and India's Paytm exemplify this.

The third option is collaboration between an incumbent bank and a FinTech provider that is all about taking highly innovative products and services to market. Take the case of Portland, Oregon-based Simple, which has partnered with banks BBVA Compass and the Bancorp to offer FDIC-insured checking accounts built to help customers save money, and supports smart spending with inbuilt budgeting tools. The accounts are free, and Simple doesn't charge fees to its customers. [7]Or that of online small business lender OnDeck, which is offering its underwriting technology to JPMorgan Chase that the bank will use to quickly approve and disburse loans to its own small business customers. Then there's Moven, which has licensed its money management app to Canada's TD Bank, which claims a cut in spending of 4 to 8 percent among app users, and gives customers unique insight via "spending meter". [8]And let's not forget SoFi, which announced in March this year that it was partnering with 6 banks to offer a checking account that would come not only with zero fee but also a debit card, bill payment and other facilities, and an interest rate of 0.92 percent that was several times the market average.

Innovation and Insight

By allowing FinTechs and third party developers access to open APIs at the experience layer, banks can leverage their innovation expertise to acquire applications of real value. Think of Ayden, which enables banks to receive customer payments from any channel, from mobile app to bank account to Facebook, to save them the cost and effort of setting up infrastructure for that purpose. Or China's Xero, which offers low cost business accounting services to small businesses, and a new revenue stream to their banks.

Besides innovation, FinTechs also bring valuable insights to their bank partnerships. Banks can use these insights

6. Ovum: 2018 Global Payments Insight Survey – Retail Banking

7. Lend Academy: An in-depth look at the On Deck / JP Morgan Chase deal

8. Bank Innovation: Sofi Money Wants to Provide Checking Accounts Without the Inconvenience

to improve and personalize products, services and experiences, reach customers on the right channels, and target promotions to the right audience at scale. For example, Ant Financial helps its partners make personalized, contextualized recommendations to more than 800 million customers at every stage of their journey.

Platforms and the Banking Ecosystem

An open API allows banks to easily onboard FinTech partners and their innovative solutions to increase revenue and more importantly, stay relevant in a rapidly changing landscape. It is also the most important tool for building a banking ecosystem.

Banking ecosystems, with their diverse bank and non-bank participants, have the potential to completely transform banking as we know it. New models of the platform bank, other than the marketplace model mentioned earlier, will come up in the future. Examples include specialist banks that offer only one or two products that they are really strong in, and distributor banks, which focus only on delivering products sourced from other providers on every possible channel.

However, the big decision before banks is not which model to adopt, but rather, what must be the core

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proposition of their platform business. Just as the most successful platform companies understood that they were in the business of connecting providers of transportation and accommodation with consumers, rather than owning cars and hotels, banks too must figure out the real needs that they serve. One thing is clear – the days of transactional banking, of merely lending and borrowing money, are over. Today's customers want their banks to enable their lifestyle through every stage of life – starting from when they enter college until the day they retire. Nothing is better suited to fulfill this expectation than the trifecta of Open Banking, FinTech, and the Platform Model.

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