Why Fintech Disruptors Are Good for Big Banks

What's Next for Big Banks, and How Can Fintech Startups Support Them? Five Industry Insiders Weigh in.

The financial crisis has been over for some time now, and the banking industry has recovered. Arguably, though, banks' reputations have not. In addition to the general public's overall dissatisfaction with big banks, a generational divide exists. Research shows that Gen Y, for example, is "frustrated with the outdated nature of financial systems," and that millennials aren't impressed with banks because they don't offer "appealing products and services." So it's no wonder that fintech startups—those early-stage companies that are creating new ways to simplify financial services that appeal especially to younger consumers—are attracting considerable customer and investor interest.

The fintech industry is not without its own issues, though. Data security, marketing challenges, and getting on the right side of regulators are just three of the hurdles it

faces. Can the big banks and fintech startups work together to strengthen each other? Five industry insiders weigh in.

Monica Eaton-Cardone *is co-founder and chief operating officer of Chargebacks911, a company dedicated to helping merchants optimize profitability through chargeback management.*

“To remain relevant in the finance industry, banks will have to keep pace with the technological advancements introduced by fintech disruptors. However, while banks face the challenge of competing on the technological front, they’re also contending with the convenience afforded by mobile-based digital services.

“This can actually play out in the banks’ favor, because consumers, younger people in particular, don’t just want financial institutions to store money for them—they want their bank to *advise* them. Convenient mobile banking features need to be augmented by real-time financial advising on the customers’ schedule in order to keep customers happy.

“It’s not enough to offer a mobile banking app with basic features, though. Banks will have to provide an experience that allows customers to handle all of their primary banking needs from their phone, along with the level of service consumers simply cannot get from a mobile app. Banks need to offer a fully-integrated experience that can work across multiple channels, while still providing the high level of security customers expect of any financial institution.

“That’s a tall order, but perhaps there is an opportunity offered by these industry disruptors. Rather than viewing fintech startups as a challenge, banks should try partnering with them. Partnerships between banks and fintech platforms could supplement the shortcomings of each by delivering the advanced, integrated online

experience consumers want, but with the level of insight and service that only banks can provide."

Priyanka Prakash *is a finance specialist with Fit Small Business, an educational site for entrepreneurs and small business owners. A former business attorney, Priyanka now helps entrepreneurs understand credit scores, loan rates, and other financial topics.*

"Fintech startups have completely revolutionized the way consumers and businesses bank and borrow money. The market share of banks is shrinking (by about 15 percent between 2008-2015), and the share of alternative lenders and other fintech startups is increasing. This is affecting business loans, consumer loans, student loans, mobile payments, real estate, and more. In fact, there's really not one financial space I can think of that hasn't been disrupted yet.

"In response to these startups, banks can do two things, and their decision will affect their future. They can either compete better with startups, or they can team up with startups. Right now, we see more banks taking the second option. That's why you have the J.P. Morgan-OnDeck partnership, Kabbage-Santander partnership, and Citi investment in BlueVine, etc.

"For the first option, competing better with startups, banks primarily have to do better in the following three areas:

- **Speed** – Banks are still stuck in the '90s in terms of how quickly they can get customers approved for loans and other financial services. Startups have made everything fast and electronic.
- **Convenience** – Many startups are able to plug into other systems that a customer might use, such as Amazon or Quickbooks, to get financial

information on the customer. Banks are not doing this and often require more than 30 hours of paperwork from customers.

- **Customer on boarding/evaluation –** Banks still hold on to credit score as the be-all, end-all of underwriting to evaluate someone's ability to get a loan. Fintech startups look at Big Data, which is any number of variables that impact an applicant's financial standing.

"Startups can collaborate with banks by emphasizing their advantages in these areas. Customers love speed, convenience, and the ability to qualify quickly for a financial product so they can get the money they need.

"As a final note, I would say that even the startups are not infallible. Yes, they are challenging some of the banks' weak points. However, they have their own set of problems. The best recent example of this is Lending Club. Due to some poor decisions in company investments and how loans are funded, they've taken a serious tumble. It serves as a warning to all financial companies, including the newcomers, that they are not invincible."

Rohit Arora *is the CEO of Biz2Credit, an online platform that helps connect small business borrowers with multiple lenders quickly and transparently. To date, the platform has arranged more than $1.3 billion in small business financing.*

"About six out of ten digital loan applications come via mobile. This is a trend that is likely to continue. Small business owners typically take advantage of the 24/7 availability of our online platform. They register during the evening hours and also during weekends. Millennials, in particular, are accustomed to doing everything on their phones. In fact, many of them have not ever set foot inside a bank branch. Adapting to this new reality is critical for traditional banks—if they want to survive."

Matthew Hawkins *is the director of bank sales at MineralTree, an accounts payable and payment automation solution for growing companies.*

"While most B2B payments still use paper checks, which are prone to fraud and require tedious manual labor, a new trend is emerging. Businesses, particularly small businesses, are desiring more advanced payment methods beyond the bill pay capabilities currently offered by their banks. The main reason many small businesses resort to making check payments is that they lack an understanding of the electronic payments landscape and the tools available to them. This is an area where banks can improve their relations with these small businesses, by offering them the tools [they need] and resources to increase awareness.

"More than 65% of small businesses said they would benefit from some type of rules-based engine or payment wizard if their bank offered it. Knowing this, how can banks better serve small businesses? By educating their [small business] clients, and partnering with technology providers.

"Educating clients includes:

- Introducing electronic processes
- Informing clients about technology opportunities
- Partnering with clients to evaluate and segment partners
- Assisting with migration plans from paper to electronic parts

"Partnering with technology providers means:

- Identifying and choosing partners with key capabilities, such as document imaging, workflow management, and hosted solutions
- Working with innovative partners who continuously improve their solutions as technology changes

- Ensuring that partners support the sizes and needs of the entire bank client base
- Finding partners who truly understand the financial services industry and marketplace

"Businesses are looking for solutions that will improve their financial pains. And it's necessary for banks to deliver solutions that meet those needs. Bill pay is not working, and customers want more than the basic functionality bill pay provides. Fewer than five percent of banks' business customers use online bill pay. Those that do quickly grow out of the current bill pay options available to them and revert to paper checks or find another solution. Businesses can now benefit from optical character recognition (OCR) technology to automatically extract invoice data, a document management solution with unlimited storage, workflow and approvals automation, and payment automation that includes all types of electronic payments."

Eytan Bensoussan *is the CEO and founder of Ferst Digital and an entrepreneur-in-residence at Ferst Capital Partners. He and his team at Ferst Digital are working to rebuild the business banking experience.*

"Many trends (i.e., rise of mobile, on-demand, new technology) open tremendous opportunity for traditional banks who want to co-opt them to support their strategies (e.g., BBVA, Santander). Conversely, these trends foreshadow serious soul searching for banks who ignore or pay superficial lip-service to them.

"For example, many fintech enthusiasts have been talking about the 'unbundling of banks.' That is, that there is a cohort of financial service startups aiming at disaggregating each service (e.g., personal financial management, loans, etc.) of the traditional bank's portfolio of offerings. Some of the most progressively-minded banks look at these startups as a source of R&D subsidized by venture capitalists.

That's a real steal! They can buy the companies wholesale, create partnerships, licensing agreements, etc. so as to offer their innovative services to an existing customer base. Other banks see these changes and are trying hard to insulate themselves from their impact or are simply not moving nearly fast enough to deploy them for the benefit of their customer base. It's a shame, because it's these customers, the bank's shareholders, and the bank's employees who ultimately suffer.

"The big picture implication is that over the next decade we'll see a tremendous creation of value in the financial services world as these trends plow their way through the industry. Some banks will use that wave of change to jump up a few notches in the food chain, whereas many others will suffer tremendously. Ultimately, I hope that our pension funds, university endowments, and charities bet on the right banks as they manage the large positions of typically low-risk bank stocks in their investment portfolio. I would hate to see the public suffer as a result of the lack of leadership in the banking sector."

Peter Longo

Senior Managing Director, Investments

Peter Longo is a senior managing director of investments at Connecticut Innovations, Inc. (CI) and has spent nearly 20 years in numerous roles at CI. Peter is currently responsible for evaluating investment opportunities, structuring investments and monitoring portfolio companies at CI. Peter's past CI investments include: Achillion Pharmaceuticals (IPO), Cardium Health (acquired by Centene), CYA Technologies (acquired by enChoice), NeuVis (acquired by Rational Software), Nufern (acquired by Rofin-Sinar), SilverSky (acquired by BAE Systems), PCC Technology Group (acquired by Clearview Capital) and Post-N-Track.