FINTECH FUTURES | REPORTS

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“Fintech vs Fintech”? The rise of digitalisation in banking

The meaning of fintech is changing

The fintech market as we know it today is a completely different beast than even that of five years ago. In the wake of the financial crisis, when financial technology companies, founded by disgruntled bankers or bright-eyed graduates sought to solve what they saw as fundamental issues in the system, few could have predicted the fundamental shift we see occurring around us today.

Fintech has gone from a sector revolving around finding innovative solutions to specific problems into its own thriving mass market. Where once people saw the plucky underdog of fintech taking on the Ivan Drago-esque figure of the banking sector, now fintech stands next to traditional banking, with eye-watering market capitalisations and funding figures to rival all but the largest institutions.

As fintech takes its seat at the table, with one leg planted firmly in the financial system and another brushing against the most innovative of Silicon Valley luminaries, the definition of what it means to be a "fintech" has changed. The fintechs of 2021 and beyond share little in common with those who broke onto the scene as little as three or four years ago.

Digitisation has gone from a "nice to have" to an imperative for many in the banking sector, and nothing has added fuel to the flames quite like the COVID-19 pandemic. As customers diversify not just the way they interact with their financial institutions but also the ways they live their daily lives, so must an innovative company pivot – strategically and technologically – to meet these changes.

One only needs to go back a few years to see how the narrative around fintechs and banks has changed dramatically. Five years ago, fintechs and new entrants were seen as smaller competitive entities, whipping adroitly around the coat-tails of the banks and picking up on scraps.

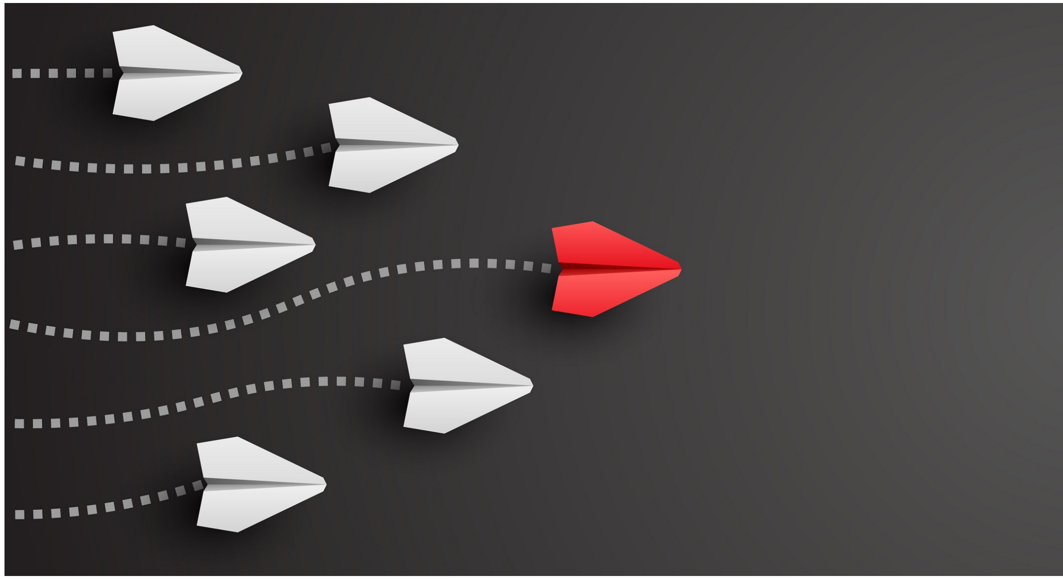
> *"Fintech has really grown up. It has proven that it can serve people the way they want to be served and in a more accessible manner. It's really exciting because success begets more success. For many years we've seen the drumbeating in the media of 'collaboration, collaboration, collaboration' but now we're actually starting to see that come to fruition.*

Nina Mohanty, CEO and founder, Bloom Money

The big guy vs little guy narrative was in full swing, and adopted whole heartedly by many new players as they fought to differentiate themselves from legacy institutions.

Now the fintech sector is awash with popularity, mass market adoption and VC funding. Challenger banks that once counted users in the thousands now count them in the millions. Other wrestle with regulatory frameworks with the same gusto their banking contemporaries do. Global venture capital funding for fintech hit $105 billion in 2020.[1]

[1] https://home.kpmg/xx/en/home/media/press-releases/2021/02/vc-investment-in-fintech-more-than-doubles-in-second-half-of-2020.html



Where once fintechs looked on the banks as competition and now see them as collaborators, or slow-moving contemporaries, what do budding new firms think of those who came before them, the legacy fintechs? Will a new market emerge, a new competitive scene where fintech battles fintech for the scraps?

"Fintech was a niche and now it's a major market. It's fair to say that now in some cases it can be fintech vs fintech. But that's fair to say in any open, competitive market space. It could be telcos vs telcos. When you see a market mature you see more providers and you see more options for consumers and businesses alike.

The entry point for new fintechs may be smaller than it was five years ago because there are more people in the pool, but that doesn't mean there isn't an opportunity to offer a great value product or service that may disrupt the market.

Luke Massie, founder and CEO, VibePay

"As a founder I'm looking at [the success of large fintechs] and thinking, 'actually, you're all doing interesting things but you're still not serving a slice of the pie that is being overlooked'. What I'm looking to do is fill the gaps.

The first cohort of fintech companies have paved the way for a new generation of firms to spring up and use the infrastructure, the APIs, the integration with open banking, to create new and exciting propositions.

Nina Mohanty, Bloom Money

Customer demands, increasing competition, and the super app

Demand for digital banking products was already strong before 2020, but following the arrival of the COVID-19 pandemic, that demand has skyrocketed. Necessity is the mother of invention and a powerful accelerant for change.

Restrictions brought about by the pandemic triggered a range of immediate reactions from financial institutions and their fintech contemporaries. While 60% of banks closed branches or shortened hours, 41% increased the limit of contactless transactions and 34% implemented fully digital application processes for products.[2]

In reaction, customers turned to digital channels. Many began to pivot entirely to online and mobile-only solutions and products, relying on them far more than they had before the pandemic arrived.[3] This has led to a change in the way consumers view their relationship with their bank, with 80% saying they prefer to manage their money digitally and 30% signing up for peer-to-peer (P2P) services, cutting out the banking middleman entirely.[4]

> *"A major thing for customers is ease of use, especially related to onboarding. I think there is still quite a big psychological barrier related to the effort required to buy certain products and services from banks as lots of them require a lot of additional information, the provision of which is often dependent on antiquated analogue processes.*

Ross Logan, co-founder and product director, Snoop

> *"When you have scale, and when you're a service that can introduce a new product line and make it very profitable and successful straight away then [being a super app] makes sense. You're usually at the stage in your lifecycle where you are a large business with a large valuation and you are open to multiple revenue streams.*
>
> *I don't think it's the right strategy for businesses that have products that have only just found their product market fit, and have very focused user groups. For example, if VibePay just tried to do everything it wouldn't work. We focus on very specific customer pain points.*

Luke Massie, VibePay

This has also been a catalyst for the rise of embedded finance as a strategy, where the utilisation of Banking-as-a-Service products and API-driven connections to open banking can integrate financial services within outside environments and ecosystems. Where banks once feared that fintechs had come to "eat their lunch" or make them redundant, it may perhaps be third parties that become the real threat.

In a market which could rapidly evolve towards the creation of a bankless ecosystem, it's no surprise that fintech apps have stepped up to fill the gap. In Europe and the US in particular, larger fintech firms are beginning to pivot towards the "super app" model that made powerhouse Chinese apps WeChat and Tencent so huge.

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[2] https://www2.deloitte.com/content/dam/Deloitte/ce/Documents/financial-services/ce-digital-banking-maturity-2020.pdf

[3&4] https://www.jpmorgan.com/insights/technology/2020-digital-banking-survey

> *It's interesting when you consider the perspective of a fintech. You're moving from a highly regulated space into perhaps a less regulated area – like travel booking. Perhaps there is a pathway for fintech apps that way.*
>
> *At the same time, though, if you're going to aim to be a super app for financial services, how does that make you different from a major bank like Barclays? You can have a better digital experience, but you'll be offering the same products. I'd be interested to see just how much more can be built out.*
>
> **Nina Mohanty, Bloom Money**

Fintech's foundational ethos revolved around the solving of singular problems which traditional companies and players had not, could not or were unwilling to. Are foreign exchange fees prohibitive? Revolut appeared to make paying abroad easier. Transfers cost too much per transaction? Wise started to remove that particular bugbear.

Now as these fintechs grow in size and prominence they, too, are looking at evolving to become a dashboard or hub from which a user could connect multiple aspects of their financial life. They are branching out and embracing finance-adjacent sectors including flight bookings, hotels, insurance and lending. Without banking licences creating a clear line of delineation, the lines between fintech and bank would become blurrier by the day.

The technological challenge

At times the world of the fintech executive can seem like running on a treadmill that gets faster with every step. Time-to-market and time-to-value have become critical for early-stage and late-stage firms alike. When looking to stand up a new business in both record time and in a secure manner, the question of technology becomes a crucial one.

Much of the infrastructural heavy lifting has been removed through the emergence of major cloud computing providers. Amazon Web Services, Microsoft Azure and Google Cloud have become a selection of go-to infrastructure providers for a whole host of emerging fintech players, with the first two comprising almost 90% of the market.[5]

The deployment of cloud-based systems means a budding start-up can be up and running quickly. Workloads across multiple verticals – from file sharing to communications, anti-fraud to business management – can be outsourced and scaled as necessary.

> *It is literally all about speed of execution. Nothing else matters in the early days as your capital is expensive. If you're raising a seed round then £100,000 could cost you 20-30% of your business. In those early days you have to put that capital to good use.*
>
> *What you have to demonstrate is not that you can build your own reliable, scalable, tech stack. What you have to prove is that you can create value in the marketplace.*
>
> **Luke Massie, VibePay**

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[5] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/as-big-tech-dominates-cloud-use-for-banks-regulators-may-need-to-get-tougher-59669007

When it comes to meeting time-to-market deadlines, many are turning to the ideals of no-code and low-code development. Proponents of the system say it offers the same functionality, integrations and security that traditional methods provide but with a system of drag-and-drop deployments and templates. These can create railways on which new companies can be built and reach launch at faster speeds than ever.

Yet a true no-code development cycle may remain a pipe dream. Some app projects will always require tooling that low-code systems don't immediately offer. When a firm begins its journey towards low code then, with realistic expectations and an understanding that when it comes to modifying the product later down the line, developers may need to turn back to old habits.

> *I think the big thing is less around technology, it's around people and culture. It's about empowering people to make decisions, empowering people to do their jobs, to be creative, to have time and space to think, but also keeping momentum and rhythm within the organisation.*
>
> *Speed to market is a cultural thing. It's about having the difficult conversations and making trade-offs between things being completed and things being good enough. It's about honestly committing to learning from customer feedback.*

Ross Logan, Snoop

Build, buy, outsource, partner?

It's hard to think of a question as enduring in the technology sphere as the one that asks if it's better to buy, build or outsource your technology stack. Of course, for the top-tier institutions and banks the answer is an easy one. They have the capital, resources and people to stick by a lengthy change.

Yet smaller banks and greenfield fintechs looking to set themselves up and come to market at a pace quicker than the usual three- to four-year deployment time, need to adopt a different approach. An evolution in the market saw the emergence of digital banking platforms, enabling the creation of customised experiences for both front and back office, and the connection of new services through the utilisation of open APIs.

With the proliferation of new digital banking platforms, however, came a new set of questions. What makes a good digital banking partner and how should I go about finding one? The first port of call should always be to generate an understanding of what the requirements of your own business and your end users are.

Are you looking to create a digital-first venture with plenty of scalability but packing the kind of UI and UX punch that could take on established players? Then perhaps finding the right outsourcing partner and systems provider would be the best bet. Are you looking to create a bespoke, unique and specialised business solving specific pain points? It may be best to lean on your own expertise and that of your team, and build from within knowing your unique specifications.

There will always be parts of the business through which partnership is required, and there will always be gaps in the patchwork of systems, products and services that will need filling. In that case, firms must seek to find a partner who aligns with their strategic focus, and is ready to get stuck in to ensure your offerings arrive with both speed and customer-satisfying service.

> “*We often work with partners that can enhance our overall offering by solving specific business or customer needs better, and quicker than we can. Our technology and infrastructure estate is made up of a lot of partners who provide specific solutions across security, data optimisation and more.*
>
> *The whole modern digital business ethos is based around being a platform, about connecting customers to different products and services based on an understanding of their specific needs at that time.*
>
> *It's about using data and interactions with customers to develop a better understanding of what they want and need, and presenting them with those opportunities at the time that suits them most.*
>
> **Ross Logan, Snoop**

A revolution in the approach of fintechs – from a simple payment card to a broad set of services

Written by Incat

1 July marked the 6th anniversary of Revolut, one of the first fintechs to offer modern payments for the B2B and B2C markets. In 2015, what Revolut offered its customers was perfectly consistent with its name – simply revolutionary.

Today, however, the use of modern payments is almost a standard, as fintechs are outdoing themselves in expanding their offerings with products and services that many traditional banks would not be ashamed of. What has changed in the approach of fintechs and why? And what does it mean for the financial industry?

PSD2 and greater trust for fintechs

It was the implementation of the PSD2 directive that not only allowed intermediary entities such as fintechs to gain access to customer data, but also gave an impetus to traditional banks to undertake broader business cooperation with modern financial entities.

Formal issues aside, however, PSD2 has allowed for something more – for fintechs to be treated as equal to banks and as trustworthy market players, and this has opened the way for fintechs to offer more advanced services and products.

MVP versus a wide range of financial services

As a result of these changes, we are seeing fintechs starting to move away from being a single-service provider to offering multiple payment products, dedicated to different target groups and fulfilling different business objectives.

The aforementioned Revolut started with a payment card, whose main distinguishing feature was the simplification of setting up an account and payments between recipients and lowering the costs of international payments through attractive currency conversion rates. The fintech started with MVP – a single, simple solution that, on the one hand, allows one to verify the business validity of the idea and inspire confidence in the market and on the other hand, facilitates the creation of a customer base to which new products and functionalities can be offered in the future.

Expanding the range of financial products allows you to build long-term customer loyalty and commitment to one entity. By choosing an application in which almost everything can be done, the customer does not need to look for alternative solutions that provide additional functionalities because all services are available in one place, seconds after logging in.

Technology that gives you a business advantage

Every financial institution bases its operations on a transaction system, which - in the simplest terms - processes and organises data about clients, their accounts and transactions. So far, the role of transaction systems has been limited primarily to functions that enable efficient financial activity, in a manner consistent with compliance.

Recently, however, the role of transaction systems in shaping fintech products and services and in supporting marketing and product development has grown significantly. Today, a transaction system is important not only from a technology perspective, but also from a business perspective because a fintech's advantage is also determined by its ability to implement new business functions as quickly as possible and to respond to new customer needs by efficiently expanding its already existing product offering.

INCAT, the provider of BOS, a modern transaction system dedicated to modern financial entities such as fintechs and challenger banks, knows this very well. BOS developers have noticed that fintechs need solutions which, regardless of their original application, address the requirements of a modern end client in the customer-centric model.

"The biggest challenge for fintechs now is how to quickly and efficiently translate business requirements into the language of technology. Fintechs, unlike banks, cannot afford a time-consuming product development process, they must keep up and even stay ahead of trends. This is why, technology is so important, not only to maintain the status quo, but also to support fintechs in rapid product development.

Piotr Hanusiak, CEO, Incat

Thus, modern financial entities today need core systems whose functionalities are not only focused on the technological and product layer, but also support an innovative approach to processes addressing customer needs. Customers of fintechs today are primarily looking for services that allow them to perform various financial operations in a flexible and efficient manner, making everyday financial management easier and more attractive.

About Incat

Incat is a technology company specialising in software development for the banking and fintech sector and providing IT outsourcing in three different cooperation models.

As a technology partner, Incat offers a trading system, designed for fintechs and challenger banks, called BOS and its cloud variant - a trading platform called Incat FaaS AI.

BOS is a transaction system with an auto-scalable microservices architecture that allows for rapid implementation and product flexibility. BOS provides a technological foundation for non-bank financial activities - its implementation addresses the handling of all required functionalities, ranging from comprehensive account and transaction management to advanced accounting services.

Incat FaaS AI is a transaction platform in the FaaS (Fintech-as-a-Service) model, which is a kind of sandbox for fintech start-ups. It is a service aimed at non-technologically advanced entities that do not have their own IT architecture or extensive resources and want to test their fintech idea in the shortest possible time.

More information about Incat solutions and services can be found here: www.incat.com.pl/en

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About FinTech Futures

FinTech Futures is a digital publishing platform for the worldwide fintech community – from the industry veterans to those just entering the space, and everyone in-between!

We provide daily news, in-depth analysis and expert commentary across a comprehensive range of areas.

Our broad readership and solid reputation, combined with in-depth coverage across fintech on a worldwide scale, makes us the leading resource for technology buyers, sellers, developers, integrators and other specialists across the sector.

Our website attracts nearly one million monthly page views and our daily newsletter is delivered to over 42,000 key decision-makers in the financial services and technology sectors. The brand is active across the key B2B social media platforms, with over 40,000 followers on Twitter @FinTech_Futures and over 20,000 members in our LinkedIn groups.

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