The converging relationship between big tech companies and traditional banks

Written by Fraser Whitelaw from the
Retail and Commercial Banking segment of
Be | Shaping the Future UK.

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Technology has been changing the way Traditional Banks ("TBs") do business for quite some time. In the early days, this change was primarily driven by the need to automate manual processes and reduce costs.

The advent of computers and the internet in the late 20th century paved the way for online banking, allowing customers to access their accounts and conduct transactions from the comfort of their homes.

In recent years, however, the pace of technological change has accelerated dramatically; advancements in areas such as artificial intelligence ("AI"), blockchain, and big data have led to the development of new and innovative financial products and services.

TBs are now using these technologies to improve their operations, compliance, security measures, and increase efficiency to better serve their customers, for example:

- **JPMorgan Chase** uses an AI-powered virtual assistant called "COiN" to understand and respond to legal documents;
- **Citi Bank's** blockchain platform ("CitiConnect for Blockchain") improves the speed and security of cross-border payments and allows real-time tracking and settlement of transactions;
- **Wells Fargo** has incorporated biometrics technology such as facial recognition and fingerprint scanning to make banking more secure and convenient for its customers;
- **HSBC's** blockchain platform, HSBC FX Everywhere, automates FX transactions, reducing costs and improving efficiency. The platform has already processed over 3 million transactions, showcasing the transformative potential of blockchain in finance; and
- Among others, **UBS** uses robotic process automation for repetitive, time-consuming tasks.

Although it's not just the TBs driving this change. Big Tech Companies ("BTCs") have been utilising their enormous user bases, vast amounts of data and state-of-the-art technology capabilities to create innovative financial products and expand into financial services.

For example:

- **Google's** digital wallet, "Google Pay", allows users to store and use their credit and debit cards, loyalty cards, and tickets all in one place;

- **Amazon** has entered the payments space with "Amazon Pay", enabling customers to use their Amazon account information to make purchases with other online merchants. Amazon has also announced plans to offer small business loans to its sellers, leveraging extensive data on their sales and operations;

- **Apple's** apple pay offers a contactless payment technology. Recently (2023) Apple announced they will also offer buy-no-pay-later services;

- **Square**, a company best known for its mobile payments processing, also offers Square Capital, a service that provides small business loans to eligible merchants who use Square's payment processing service; and

- **PayPal**, the online payments company, offers a range of financial services, including a digital wallet, a peer-to-peer payments platform, and credit products such as PayPal Credit.

These investments demonstrate how BTCs are positioning themselves to become major players in the financial services industry. Analysing vast amounts of data with cutting-edge technologies proves their potential to disrupt the financial services sector and reshape the way we think about banking and finance.

What does the future financial services landscape look like?

The current trends suggest TBs and BTCs will continue to become more alike.

We will likely see a newly defined (and extremely competitive) "cohabited marketplace" where TBs and BTCs compete to provide similar financial products and services.

This cohabited landscape will be extremely competitive because each institution type has its competitive advantages.

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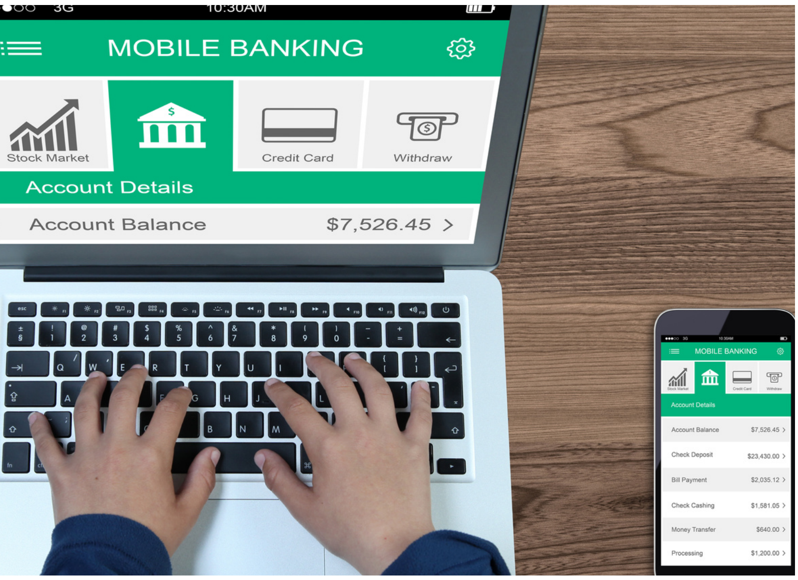
TBs have a better understanding of a customer's financial situation (and therefore affordability and associated risk of default) and can use this knowledge, alongside compliance procedures to develop tailored financial products and services for their customers.

TBs have a long-established reputation for safety and security and are highly regulated, however, this comes with a level of conservatism, which means they can be slower to respond to market changes.

Whereas, BTCs have access to a wider pool of data, including online spending behaviours and advanced market analysis tools, and can now offer a wide range of services.[1, 2]



BTCs also have the resources and technical expertise to develop and implement new technologies quickly and provide targeted responses to market changes.[3]

In the new cohabited marketplace, TBs must adapt and evolve to compete with the changing technology, while BTCs must navigate the regulatory environment and gain the trust of consumers, and businesses. Governments will play an interesting and unpredictable role as they aim to ensure consumers' financial data is protected and firms are operating safely.[4]

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WeChat, the Chinese multi-purpose social media and messaging app, has recently entered the cohabited marketplace.

WeChat is threatening TBs through its digital payment system, WeChat Pay.

WeChat Pay allows users to link their bank accounts to their WeChat account, allowing for easy and seamless mobile payments.

With over one billion active users, WeChat Pay has gained significant market share in China, posing a significant challenge to traditional banks. In addition, WeChat Pay has expanded internationally, allowing users to make cross-border transactions, and potentially threatening the role of traditional banks in these transactions. Overall, the success of WeChat Pay highlights the potential of FinTech disruptors to reshape the banking industry.

> "...the success of WeChat Pay highlights the potential of FinTech disruptors to reshape the banking industry."

So how will the relationship between TBs and BTCs continue?

There is a limit to an institution’s ability to act and behave like the other. BTCs and TBs have different cultures and priorities.

TBs have long histories and are typically more established, traditional organisations, with a focus on risk management, compliance, and stability and therefore are built around systems, processes, and practices specifically designed to navigate government regulation.

On the other hand, BTCs are more innovative and agile, with a focus on growth and disruption.

These cultural differences may limit the amount of crossover between the two industries. Introducing a new culture, retaining the talent which helped the company breakthrough, and mitigating the risk of potentially losing market share are strong barriers to entry and a risk most won’t take.

Moreover, as BTCs expand into financial services, they will face more scrutiny and regulatory pressure. Governments around the world are becoming increasingly concerned about the power and influence of BTCs and now impose stricter regulations on them.

This increased regulatory pressure will decrease the attractiveness of pursuing further financial services opportunities.

Contrarily, TBs have been around for many years, and have legacy systems, processes, and practices that need to be maintained and updated regularly, making it difficult to implement new technology quickly and efficiently.

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At the fringes of this new cohabited market segment, we will see a significant drop in competition and crossover.

It's more likely BTCs and TBs will partner in these fringe spaces to leverage each other's strengths and resources.

For example, by partnering, a BTC could gain access to a TB's customers and regulatory compliance infrastructure.

In return, the TB is granted access to the BTC's advanced data analytics capabilities. Partnerships will also provide safer environments to explore new business opportunities.

A cautious BTC may choose to partner with a TB and offer innovative financial services through their mobile app, an opportunity to develop new financial products and learn more about this space before venturing on their own.

Moreover, the growing trend for digitalisation[5] means partnerships between smaller institutions can help each other keep up with the established, traditional market players.

Summary

It's clear TBs and BTCs will continue to become more alike in the future, although at a decreasing rate. The threat of BTCs disrupting the banking industry still looms, but it is more likely TBs will partner with BTCs in mutually beneficial relationships whilst competing incandescently in the new cohabited market space.

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The financial services industry is undergoing a significant transformation, driven by technological advancements and innovations from both TBs and BTCs. The emerging cohabited marketplace will be competitive, and partnerships between BTCs and TBs will likely arise in fringe

spaces to leverage each other's strengths and resources.

While the future of the financial services industry may be unpredictable, the transformation will continue to be driven by the application of technology and the increased focus on customer experience and convenience.

Customers are now more tech-savvy, and they expect financial services to be available on demand, with seamless experiences across channels. Financial institutions must continue to embrace technology and innovation to deliver superior customer experiences and remain relevant in the market.

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Regulation is a crucial factor that will shape the cohabited marketplace. Both BTCs and TBs must navigate regulatory requirements and compliance issues to ensure that they meet customer demands while remaining compliant. Failure to do so can result in significant financial and reputational consequences, which can be detrimental to both the institution(s) and the customers.

In conclusion, the cohabited marketplace emerging in the financial services industry is dynamic, competitive, and unpredictable; and one which will be shaped by customer demands, regulatory requirements, and the need to remain competitive.

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About us

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Bringing deep industry expertise and expert consulting capabilities, we support our clients to tackle their biggest opportunities and challenges to deliver fundamental and enduring change to their businesses.

Contact

For more information on how we can help with your retail and commercial banking transformation initiatives, please get in touch.

David Royle
Partner - Retail & Commercial Banking

David has over 25 years of banking and consultancy experience, having worked with global banks, building societies and dynamic challenger brands.

He specialises in digital transformation and data analytics to drive business innovation and change. Studying changing customer behaviour for many years, he has supported the sector to innovate and change, leading many industry firsts. He previously founded a FinTech start up to bring new insight and innovation to Personal Financial Management.

E: d.royle@beshapingthefuture.co.uk
T: +44(0) 7769 222877
W: www.beshapingthefuture.co.uk

Fraser Whitelaw
Consultant - Retail & Commercial Banking

Fraser is a highly experienced consultant and data specialist with a background in Engineering and Quantitative Studies. He currently works for Be UK's Data Science team in the Retail and Commercial Banking sector. Fraser's an expert in developing machine learning and statistical models using data science paradigms.

E: f.whitelaw@beshapingthefuture.co.uk
W: www.beshapingthefuture.co.uk