

Partnering up: The only way forward for banks and fintechs

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Local fintech players are carving out a sizeable chunk of the financial space with mobile money, social lending, bitcoin wallets, mobile card acquiring, identity management, insurtech, mobile authentication, financial chatbots and more.



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For traditional banks, the coming few years look very threatening indeed. Aside from fintechs snapping at their heels, there are other forces at play:

- Platforms such as WhatsApp, Facebook and Google continue to spread their wings into new areas (and financial services is an attractive target).
- A cluster of new banks are gearing up to launch - including the likes of Discovery Bank, Azar Bank, Thyme Digital and Zero Bank.
- At the same time, Africa's major mobile network operators are signalling a strong intent to capitalise on high smartphone penetration and cheaper data rates to create compelling mobile money solutions.

Forced to fight a war on many fronts, just what can SA's major banks do to fend off challengers and reassert their dominance?

About a decade ago, we saw the banks generally pursuing a multi-channel strategy - trying to develop new digital touchpoints and unify experiences across a growing number of channels.

By about 2013, banks realised they needed to be digitally-focused, above all else, and that this would be the foundation for innovation and differentiation in the market.

Since then, we've seen the major banks all undertaking core transformation programmes in different ways and at different paces.

Determining one's core strengths

These transformation programmes should enable new partnerships within ever-shifting digital ecosystems. By making it easy for banks to integrate with other players in the value chain, they're better positioned to embrace new fintech partnerships and leverage a host of new capabilities.

Major banks are very strong in the core product development, payment rails, established processes and strong governance, and regulatory and licensing requirements. But when it comes to fast-paced technologies - the likes of data analysis, artificial intelligence and customer sentiment analysis - they're being roundly outpaced by the more IT-focused fintech leaders.

The key is to define a strategy where the bank decides which in areas it will 'go it alone', and where are the opportunities to partner and benefit from what fintechs have already started.

Perhaps the most obvious area for partnership, is in the data science space. The UK's Open Banking project provides a great example of regulators stimulating healthier competition, by forcing incumbent banks to give customers a secure way to take control of their financial data and share it with fintechs

By parsing data to fintechs in a responsible and secure manner, the two parties could come together to extract far greater value from the datasets (given fintech players' capabilities in advanced data science). Ultimately, this provides both the bank and the fintech partner with a better understanding of the customer.

New thinking

Another wonderful opportunity exists in the risk analysis space, where banks can make use of innovative social and analytics technologies that have originated in the fintech realm - analysing customers from different dimensions to score their creditworthiness.

In fact, this kind of fintech partnership could be extended a step further. In the spirit of today's themes of the 'social economy' and the 'sharing economy', banks and fintechs can explore entirely new lending models, with crowdsourcing approaches that allow customers to lend money to each other.

In this way, banks can evolve from simple transactional relationships, to the kind of platform business model that scales limitlessly and opens up far more opportunities to engage with customers.

Ultimately, with the right technology architecture in place, banks will find a myriad of interesting partnerships opportunities - with fintech as well as other unconventional players. For instance, why can't banks start delivering new cards via Uber drivers.

All across the African continent, we hear about the need for financial inclusion and increased access to financial services, or the importance of micro-financing to get nascent businesses off the ground and stimulate further economic success. The reality is that traditional banks simply can't achieve these lofty goals on their own. With the rise of new digital

economies, the time is now to partner with fintechs.

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