Enablers and Challengers: The Rise of Fintech

by Helen Sanders, Editor, TMI

The Cash Management University included an interesting and engaging series of in-depth workshops from which participants could choose, covering topics such as cash investment, payment factories and reverse factoring. The following article outlines some of the themes and issues that were explored during a fascinating workshop on fintech, "Taking the Buzz out of Fintech", featuring Robert Dekker, Associate Director, KPMG Advisory, Bruno Mellado, Head of International Payments and Collections, BNP Paribas and Dominique Adriansens, CEO and founder of fintech company Twikey.

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Left to right: Bruno Mellado, Head of Payment, Products and Project, BNP Paribas Cash Management ; Robert Dekker, Associate Director, KPMG; Helen Sanders, Editor, TMI , Moderator; Dominique Adriansens, Founder - Managing Director, Twikey

Who are fintechs?

Given that using technology to enhance and automate financial processes and decision-making is not new, it is sometimes difficult to define 'fintech', which is simply a contraction of 'financial' and 'technology'. In general, fintech is used to describe new products from new startups, or the adoption of new approaches by existing players where technology is the key enabler. So far, fintech innovation has been targeted more at the retail than wholesale financial space, with the World Economic Forum identifying six 'innovation clusters': payment; market provisioning; investment management; insurance; deposits, and lending and capital raising. Increasingly however, we are seeing a greater focus on solutions for corporations as well as individuals and small businesses.

Catalysts for fintech growth

Fintech companies are already attracting significant investment, estimated at $20bn in 2015, and the twenty largest fintechs generated $45bn in 2014 alone. While this level of growth and investment puts some bank revenue at risk, the likelihood is that banks and fintechs will continue to co-exist, and given the expansion in the financial services market, there is room for both to flourish.

Regulators have been proactive in embracing and encouraging the growth of fintechs by recalibrating their supervisory approach to reflect the new environment, engaging in a dialogue with stakeholders, and improving their knowledge of technology innovation. The Australian Securities and Investments Commission (ASIC), for example, has started an Innovation Hub, while in the UK, the Financial Conduct Authority (FCA)'s Project Innovate has supported over 175 new businesses by providing the environment in which to test innovative products, services, business models and delivery mechanisms. Also in the UK, the Open Banking Working Group, set up by HM Treasury in September 2015, has created an open banking standard for building bank application programming interfaces (APIs) to stimulate technology innovation in the financial sector.

Building relationships

Although in theory fintechs have no inherent advantages over banks or more established players, their scale and lack of legacy issues enables them to be more adaptable to a changing business and technology environment, and create, test and take to market new solutions more quickly. Furthermore, without the potential constraints of existing products, services and business models, it is often easier for these companies to bring a fresh perspective on existing models and identify and deliver more radical, potentially 'disruptive' solutions.

However, despite the advantages that fintechs have over incumbent players, whether banks or larger technology companies, they lack the reach, customer base and scalability of these organisations. Consequently, the relationship with these incumbents will be critical for many fintechs in the future. The nature of this relationship will clearly depend on the specific type of solution but effectively, fintechs fall into two

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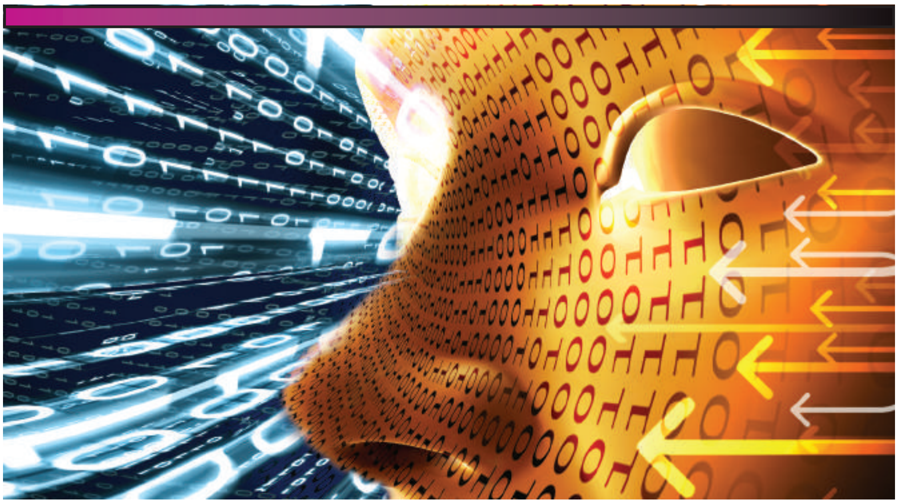

BNP Paribas has established a variety of flagship partnerships with leading fintechs in their respective fields.

broad categories: ‘enablers’ i.e., those that facilitate or enhance an existing process or solution, and ‘challengers’ i.e., those that create an alternative to an existing process or solution.

For enablers in particular, collaboration offers significant benefit to both banks and fintechs, while for challengers, some banks or technology vendors may seek to ‘neutralise’ or embrace solutions into their own stable through acquisition. Banks are engaging in a variety of ways, depending on the maturity of the fintech: for very early start ups, for example, banks’ start up and incubator programmes can help them to take their first steps. As companies mature, there is opportunity for partnership and venture capital, and in some cases, acquisition will be the preferred route. Furthermore, start ups can flourish within a bank as well as outside it, such as through innovation labs. These solutions may be added to the bank’s portfolio of solutions or marketed through a subsidiary.

BNP Paribas is proactively engaged both in facilitating new start ups and partnering with fintechs that already have a proven value proposition. The bank’s fintech accelerator, which is designed to encourage co-innovation and mutual opportunities, attracted 142 start ups in 2016, covering a wide range of financial services. Fifteen percent operate in the areas of cyber-security, fraud reduction and compliance, a key area in which fintechs can add value to both banks and corporate customers. Eight companies were selected to receive further support from the bank.

In addition, BNP Paribas has established a variety of flagship partnerships with leading fintechs in their respective fields, such as cross-border payments network Earthport and Twikey, a mandate service provider.

Twikey: electronic direct debit mandates

As Dominique Adriansens, CEO and founder of Twikey explained, Twikey offers a complementary solution for both banks and corporate treasury and finance functions to initiate SEPA direct debit mandates, manage these mandates over time, and automate the full SEPA direct debit workflow. As many companies have experienced, the process for setting up and managing direct debit mandates, particularly B2B mandates, is very lengthy and paper-intensive, in some cases taking up to five months. In contrast, Twikey replaces paper mandates with digital messaging and approval for B2C and B2B mandates for payments such as subscriptions, rentals, loan repayments, utilities and one-off payments..

As Twikey is a complementary solution to both bank and corporate processes, the company has a number of active partnerships in place with leading banks in the Benelux, including BNP Paribas. The results for corporate customers have been striking. Companies with 200,000 recurrent subscriptions, for example, can expect to make annual savings of €150k - €270k by switching to electronic direct debits. Furthermore, as mandates can be configured and branded for each customer, they can deliver a high quality, efficient and prompt service to their clients and therefore enhance the client experience.

Business as usual

The ‘buzz’ around fintech will inevitably fade as emerging solutions mature and become well-established, either as independent solutions or as part of a wider bank or technology provider portfolio. However, just as we have seen new entrants ‘disrupt’ existing business models, from Uber for ride ordering through to Apple Pay for consumer contactless payments, fintech companies, both independently and in collaboration with other organisations, have the potential to challenge, and in some cases transform existing business models, processes and decision tools. As yet, we are still at an early stage in this process: most corporate treasurers and finance managers have yet to see major inroads into their organisations from new fintech entrants. As these mature, however, it will become increasingly important to stay informed and open-minded about new opportunities that can help improve performance, controls and decision-making. ■