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Media Coverage

For traditional banks, fintech newcomers offer opportunities, not threats

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Far from cannibalising traditional banks, the fintech boom has brought to the industry innovative ideas and technology. The next fintech wave should see greater collaboration between big banks and niche fintech players, to the benefit of all

Over the past two decades, technology has altered many industries – music, retail and transport to name but a few. Yet, during this period of technological disruption, financial services have continued to grow.

Banking has always been about technology. The 1970s brought us ATMs and credit cards, the 1980s, debit cards, and the 1990s, internet banking and e-commerce. The pace of technological change has accelerated over the past decade or so, with the explosive growth of smartphones and the connectivity they bring, laying the groundwork for the development of mobile banking.

Smartphones seldom leave our grip these days, so the distance between customers and banks has been all but eliminated. Customers have come to expect personalised, interactive and instant services for every part of their lives, at their fingertips and at any time.

This altered landscape is the catalyst for a new generation of financial-technology start-ups offering tailored services to specific market segments on digital platforms. The tech giants have also been making bold moves in financial services.This innovation has been encouraged by policymakers. In Singapore, Australia and Britain, regulators are fostering advancements in fintech by setting up sandboxes to test scenarios.

The Hong Kong Monetary Authority has launched a series of initiatives such as opening up its fintech supervisory sandbox to technology firms, the open Application Programming Interface, which allows banks to tap into a global community, and the Faster Payment System, a real-time payment platform. It has also issued licences for virtual banking.

But to say that the fintech boom is cannibalising traditional banking would be an exaggeration.

Most fintech newcomers are entering niche segments of the wider financial industry. They primarily provide innovative financial services targeted at retail businesses, from payments solutions and online banking to peer-to-peer lending

This new wave of technological development has not revolutionised the financial landscape. Financial institutions remain dominant players and continue to welcome this advancement.

Major banks are already increasing their investment in technology and immersing themselves in digital innovation. This includes changing the culture and mindset of employees, revamping information technology systems, and developing innovative tools such as mobile payment solutions, automation of processes and biometrics.

On top of this, banks are incorporating advancements in big data analysis and artificial intelligence to better understand and service their customers' needs, preferences and expectations.

Most of HSBC's customers are now comfortable using smartphones for financial transactions. Over 80 per cent of our global retail banking transactions occur through digital channels. Our PayMe service, a peer-to-peer payment system for Hong Kong, has over 1.6 million users making millions of transactions per month.

In addition, banks also bring emerging technologies to the trade world in ways that will reduce paper-based processes and support clients' day-to-day activities. They are substituting automation for repetitive tasks, using optical character recognition to scan trade finance documents, blockchain to reduce trade friction and making trade more accessible.

This will help speed up, simplify and reduce risk in the US$9.48 trillion of annual global merchandise trade.

It is critical for the long-term competitiveness of the banks to keep investing in technology. But banks should also focus on developing and deploying technologies that meet their customers' needs and demands. And that is why we are seeing the ecosystem of incumbent banks, big tech companies and fintechs develop in a healthy and constructive way.

If the first wave of fintech was primarily about providing existing services more easily, quickly and efficiently, then the next wave is going to be about greater collaboration and partnership between tech companies and banks.

Fintech start-ups will benefit from incumbent banks' strengths: brand recognition, established customer bases, strong balance sheets, regulatory experience, and physical branches with human interaction, which will remain a critical part of banking.

Meanwhile, traditional banks stand to gain from the out-of-the-box thinking, market intelligence and technical expertise that are the hallmarks of nimble, innovative start-ups.

As the financial services industry expands its digital footprint, its risk profile is bound to broaden. Digitalisation can also create more vulnerability to cyberattacks. Banks, fintech start-ups and government all need robust ethical controls throughout data supply chains to be certain they can balance the risks and benefits of data technology.

The good news is that there is a growing expectation in political, regulatory and public spheres that businesses should have these frameworks in place to protect customers and maintain effective, competitive markets as big data and AI develop.

Banks are no stranger to technological innovation, filled with challenges and disruption, while presenting great opportunities. We know we still have a long way to go, but we have long adapted our core business and kept with the times. This fintech wave is no different.

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