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Fintech, banking's great disruptor. Or is it?

Jennifer Doherty, Head of Innovation for Asia, Global Liquidity and Cash Management at HSBC explains this

Incessant debate around Fintech and digital disruption should not distract the banking industry from its core purpose of being a trusted manager of people's money. Nor is it an excuse for the slow adoption of technology that will improve customer experience.

Fintech and banking are often touted as competitors or rivals and there is much speculation about the industry's future in the same way that music downloads disrupted the record industry and Uber is disrupting established transport industries.

But for all that it aspires to do, technology needs to happen in a safe environment where customers' data is protected. It all boils down to trust.

HSBC's 2017 global Trust in Technology report found when it comes to finances, people seek safety and prudence from those who manage their money above all else.

Trust is the cornerstone of all relationships. Banks have had decades to build extensive infrastructures, develop solutions for compliance and regulatory requirements, and most importantly, earn customer trust.

That is why for banks to stay relevant, they cannot lose sight of their core purpose: To safeguard and responsibly look after other people's money.

But this doesn't take away the need for banks to start deploying better technology to improve customer experience and journeys.

And they are doing just that.

ENHANCING THE CUSTOMER EXPERIENCE WHILE KEEPING THEM SAFE

Banks are investing heavily in new technologies and spending is expected to continue to grow as banks seek to take advantage of new technology and digital solutions to make their operations more efficient, maintain competitiveness, as well as comply with regulators.

Some of these partnerships help banks work more effectively behind the scenes. We have invested in a start-up which is developing technology that can sift through large amounts of financial transactions to pinpoint suspicious patterns. This will help us tackle financial crime more effectively, and, ultimately, keep our customers safer.

But the real failure is in not harnessing technology to enhance the customer experience.

The financial services industry is going through a period of extraordinary transformation. After centuries in which pen, paper and physical cash ruled banking interactions, digital technology is now bringing a new level of analysis, connectivity and transaction power literally to customers' finger tips.

These changes have happened in just the last few years – and they serve a new generation of customers, who have grown up in the digital world.

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Millennials demand convenient services and new ways of accessing them, wherever and whenever they want. They expect agile, rapid services operating in real time that are competitively priced and personalised.

ENTER FINTECH

Fintechs are entering the fray to respond to these needs and gaps in the industry.

Relations between these emerging fintech players and the established banking industry are sometimes portrayed as challenging, even combative. Some traditional banks worry that the fintech wave will disrupt the banking industry in the same way that music downloads disrupted the record industry and Uber is disrupting established transport industries.

But the reality could not be further from the truth. In fact, banks and fintech companies are entering partnerships of collaboration, giving banks access to new technologies, and giving fintech companies access to funding and scale of market opportunity.

Big banks and fintech start-ups have a great deal to offer each other. Banks have a large customer base, stable infrastructure, assets and regulatory know-how. Start-ups provide out-of-the-box thinking, technical expertise, and agility to adapt quickly to change.

Together, they can be far more successful at improving the financial services and customer experience than if they compete against one another. And we'll witness far greater collaboration and integration in the coming years.

In Malaysia specifically, the fintech industry, while still in its nascent stage, is gaining significant momentum. The financial sector blueprint in fact considers fintech as an initiative to achieve the objectives of the country's ten-year plan as it will extend the provision of financial services beyond the traditional purview of banks. The financial sector blueprint sets out a strategic plan to increase the resilience, efficiency and competitiveness of Malaysia's financial sector.

In line with this, Bank Negara (BNM) has adopted an agile mindset to the fintech wave through its introduction of the fintech regulatory sandbox framework. This supports innovation that enhances financial services in the country. Startups that offer services varying from insurtech to remittance and money exchange have been admitted to the Sandbox.

Looking ahead, with the presence of renowned players such as Alipay and WeChat Pay in the country, innovation in payments will play a crucial role in the financial landscape.

NEW OPPORTUNITIES

Over time, banks that can adapt, embracing the innovations and utilising technologies offered by the fintech industry stand to reap new opportunities, and even extend their share of the market.

Current fintech investments are reflecting the shift from disruption to collaboration, where, increasingly, investment is moving into new technology that collaborates and complements the existing technology and infrastructure, rather than those that are disruptive or work in silos.

Our approach at HSBC Group was to set up a Strategic Investments team, which scouts the start-up landscape, identifying companies which are potentially good investments, and which provide technology we can use.

We believe that when we act as both investors and customers, we get more value from new companies, and they get more value from their relationship with us. This is critical to nurturing the kind of technological innovation that is necessary to make financial markets and systems more efficient, and to improve the overall customer experience.

The evolution of financial services is not a zero sum game. It is clear that banking will look quite different in the coming years than it does today – with regulation, technology, demographics and changing customer expectations.

In as much as financial technology is putting pressure on banks, it is a lot further away from a disruption. The established banks are likely to remain key players - it is more a question of how banks can utilise the fintech innovations sprouting up around them.

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