GLOBAL BANKING & Finance review

Hans Tesselaar, executive director BIAN, Oct 27, 2015

Collaboration between Banks and FinTechs for an improved financial future

The Banking Industry Architecture Network (BIAN) was formed in 2008 in response to the significant issues facing the banking sector – primarily, the global economic crisis and the increasingly destructive weight of aging IT systems The not-for-profit association comprised of banks, technology experts and academic partners, including Microsoft, IBM and UBS has since worked to develop an internationally standardised architecture design to be put into practice at banks across the globe.
The network recently announced Oracle, the internationally renowned global IT Company, to the community of sixty plus members. Oracle has joined BIAN with the aim to help banks that are grappling with modernizing multiple IT systems. Oracle has long been the trailblazer in the creation and support of open standards to enable systems and technology to work together, recognising that this provides both efficiency and choice to their customers. They can assist with meeting these challenges via cloud adoption, the deployment of digital capabilities, as well as encouraging standards adoption. Standards adoption provides a foundation for strategic enterprise architecture planning and application integration, both of which are critical in increasing bank agility.

With banks facing pressure from numerous directions at present, they are beginning to understand that competing on core banking functionality will not breed success. Banks should be working together with technology giants, and even smaller nimble FinTech startups, to define the future of their core banking architecture and build a standardised model across the industry. By doing so, banks can then concentrate on competing in the areas that matter, such as providing an improved service to customers at a lower price.

Systems Failing the Customer

New firms have the ability to innovate quickly, due to their flexible platforms that are often based on cloud technology. Traditional banks lack this flexibility – instead they are confined to their outdated IT systems that were developed often in a pre-internet era.

The inability to cope with change is enhanced by banks that then begin adding on layers of technology in an effort to modernise. In some cases, this convoluted IT architecture has resulted in IT outages at major banks – ATM systems failing and payments not being processed on time – a nightmare for the banks as they struggle to cope with today's financial technology requirements and an 'on demand' customer. This has resulted not only in reputational damage, as customers air their dissatisfaction publically via social media, but also further clampdowns from irate regulators.

The legacy issue

The Traditional banks have placed emphasis on their heritage – we see this in TV advertising amongst all the top four. They do this to demonstrate their credibility and it has worked until now. This traditional image has allowed the big banks to maintain a strong position in the market, but now it is rapidly being invaded by new entrants. Just last week, the U.K.'s antitrust regulator- the CMA – said Britain's retail banking market isn't competitive enough. The big four banks control 77% of the checking account market and 90% of business loans, according to the CMA. Yet technology legacy also brings inefficiencies – the industry needs to look forward and re-think their IT structures if they are to remain competitive.

By separating their technology into core business functions, banks will be able to determine where they can make isolated updates – ensuring they can offer a service that matches their customers' demands, without facing the risk of IT outages. For this idea to work effectively, collaboration across the industry is key. Together banks and technology experts can introduce a new industry IT business standard, such as that proposed by the members of BIAN. This will also allow banks to identify technology tasks that can be managed by a third party, such as consultancies like Accenture, GFT and KPMG, while they focus on providing services that matter to their business.

New entrants may be making their mark with their individual areas of expertise, like mobile-only banking, but traditional banks are still in the position to dominate the market with their broad financial capabilities. Customers are likely to remain loyal to the traditional banks, provided their services innovate in line with their expectations. Most of the new challenger banks, like Starling and Mondo, are yet to be licensed and aren't able to offer lending options yet. These new entrants are unable to offer the variation of services that the customer has come to expect from their banking experience.

FinTech companies are focussed on disruptive, innovative technology alone, while banks have the support of a sophisticated financial history. Nonetheless, banks cannot afford to be complacent of their dominant position, particularly in light of the current CMA investigation, and will need to focus their attention on real innovation that can be quickly implemented if they are to remain competitive into 2016. By collaborating on their IT structures, banks can focus on their customers and individual business success, whilst hopefully seeing profit margins rise. On the other hand the FinTech's need to integrate and align with the banking functions in order to become successful, and remain so. Adopting an Industry Standard will increase the success rate of the FinTech’s at double the speed, whilst giving banks the benefits of easy absorption of the FinTech’s offerings.