Assessing the Fintech Digital Gameboard

by Charles Wendel

Two weeks ago I wrote about the position of strength that banks are operating from in their Fintech relationships. But, many banks are failing to take advantage of what Fintechs offer. Too often, banks pursue an incremental approach, addressing specific one-off problems rather than considering their own and their customer's digital needs more holistically. I ended that column saying that many banks still do not know how to work with Fintechs or establish internal priorities.

Last week, we reprinted an article I wrote for BAI Banking Strategies (by the way expertly edited by Lou Carlozo) that focused on the need for banks to consider a dynamic due diligence process when dealing with vendors, based upon a bank's changing needs and continuing shifts in the Fintech environment. Bank pursuing an incremental approach (based one or more near-term "pain points") should manage partner selection and due diligence with their potentially changing requirements in mind. The article suggests a three-phase approach that includes a bank reconsidering its initial decisions, as circumstances change.

A recent CTO comment provides an example of how banks and Fintechs may be looking at working together differently: "'There's an ambiguity in what banks on one side, and Fintech companies on the other expect from a POC [proof of concept],' Bruce Wallace, CTO of Silicon Valley Bank, told **Bank Innovation** previously. 'Fintech companies expect the bank will be an enterprise client, while for the banks it's often more around R&D, product learning, testing. Talk to companies about how frequently they do POCs that never end up with an enterprise license.'" The road for Fintech success with banks involves maneuvering many curves and sudden stops.

From the bank perspective one major challenge centers on their own navigating through the seemingly ever-increasing number of Fintechs offering their services. While the same situation may be emerging in the payments, consumer and wealth spaces, among others, small business banking related competitors seem to be popping up weekly. And, these are not just startups but also include new initiatives from established U.S and international players that may be offering a full online lending solution, a digital origination and conversion capability, specific tools to improve marketing effectiveness, credit decisioning and/or other critical capabilities.

While we may be missing some emerging areas, currently, at least four categories of competitors operate in the small business lending space. In their own ways, each claims to improve the customer experience while streamlining processes, cutting loan origination costs, and proving a path to increased loan and other revenues from small business customers and prospects. Each also brings with it some pros and cons.

Fintech lenders, both marketplace and equity. These companies offer the opportunity for banks to integrate with a third-party lending specialist whose technology, approach, and pricing makes small loans profitable. They bring a digital platform that transcends what

most banks can offer and also allows a bank to serve the lending needs of bank customers and prospects that fall outside bank lending criteria.

But, marketplace and equity-based third-party lenders also need to be evaluated for their sustainability and possible reputation risk. In addition, in order to initiate working with a bank, some are now disaggregating their offer, for example, offering a one off product such as digital application software as a foot in the door even though this approach may divert them from their stated focus.

Bank decision issues: Is bank management willing to commit to a long term third-party partnership? Do the risks of doing so outweigh the upside? How can the risks be addressed and mitigated? How does the bank vet which partner best synchs with the bank's capabilities and culture? What about the company's track record and sustainability?

Fintech IT providers. These IT focused vendors work with banks and credit unions to move current approaches to a digital environment, reducing origination costs and improving the customer experience. While the type of partnership integration outlined above can take a year or more to approve and implement, banks can adopt an IT solution in a few months. Beyond a digital platform, on a modular basis many of these companies provide marketing support, risk analytics, and an optional loan referral service, for loans the bank turns down.

Bank decision issues: Which vendors possess the most relevant small business experience? Which offer multiple modules that the bank can assess and adopt when desired? What about the company's track record and sustainability?

Core systems and bank operating systems providers have added digital small business lending modules both to meet banker demands and avoid incursions from the Fintech IT providers described above. However, while they may be easy to "bolt on" to current systems, at least some appear to lack the functionality and flexibility provided by the IT specialists.

Bank decision issues: Are the modules offered by these firms of the same quality as those of the best IT vendors? Is what they offer good enough?

Omnichannel digitial origination specialists. These companies focus on providing an enhanced digital origination software that improves the customer experience and increases the close or conversion rate. They are business line agnostic, applying the same capabilities to retail, business, and wealth management banking. While they provide a "one-stop shop" for bank origination needs, they do not claim to offer the modules in marketing, risk analytics, and loan referrals offered by specialist competitors.

Bank decision issues: Does the bank want to work with a functional specialist that excels in one area or with a vendor with broader capabilities and is expert in one or more lines

of business? Which is more critical: the ease of working with one vendor or the segment expertise and additional capabilities that a specialist provider brings?

How to move forward. This newsletter sketches out one decision area for one business line, a fraction of the business areas and functional opportunities banks need to consider. What's needed within banks is an assessment and evaluation approach that cuts across bank lines and brings in both internal business and digital bankers as well as outside experts.

Decisions in these areas should not be made by the biggest title or the more assertive voice in a conference room. The banks that we have worked with that are doing this right operate collaboratively, seek outside input, but keep their collective eye on the prize: improved customer experience and a reputation for market leadership.