Digital Banking Has Reached the Tipping Point

by Charles Wendel

In 2000, Malcolm Gladwell wrote *The Tipping Point: How Little Things Can Make a Difference*. In that book Gladwell defines a tipping point as "the moment of critical mass, the threshold, the boiling point." The book goes on to discuss how 'ideas and products and messages and behaviors spread like viruses do."

Digital banking has now reached the tipping point. When I first started working with Fintechs approaching ten years ago, I thought that their innovations might sweep away some traditional banks and that banks would be quick to partner up with these innovators. WRONG!

The adaption process and the move to digital have been slow and cautious. Of course, in retrospect that makes sense. Banks have needed to manage their current businesses and maximize the use of current channels, in particular the branch. While Fintechs were heralding the growth opportunities that teaming up with them would provide, banks remained skeptical, with many continuing to put primary focus on regulatory and compliance areas.

There is an old Wall Street saying that fear and greed drive markets. All managers (maybe all people) also make decisions based upon either fear or greed. Fear often serves as the predominating motivational factor for bankers. Years ago, I commented to a senior banker that he seems paranoid about the regulators. His reply: "I am paranoid!" He meant that regulators could basically destroy his career, if they felt they had reason to do so. That level of fear heavily outweighed any potential revenue from a lending partnership.

So, what has changed to make banks actively interested in working with Fintechs? At least five factors have pushed banks beyond the no-going-back tipping point. Some of these factors are tied to fear, among them, fear of cost increases, fear of losing customers, and fear of reduced relevance as customers shift more activity to the digital world.

Regulatory and compliance issues have eased. Post downturn, banks have spent years meeting regulatory requirements, increasing capital, and taking whatever other steps were required to meet internal and external demands. Regulations and compliance issues may remain onerous, but most banks have figured out how to deal with them, having taken on the added non-revenue generating expense required.

In fact, more bankers are looking at how to use RegTech, managing regulatory requirements through the use of digital technology, as an efficiency tool. Use of these tools is still at an early stage but expect its use to grow rapidly. RegTech meets both the greed (saving expense dollars) and fear (making regulators happy) criteria, ensuring adoption of those tools.

The customer wants it. Banks talk "customer experience", but customers live it. Customers may not entirely leave your bank if you offer poor digital services, but they will move more business elsewhere and they will bring less business to you. Fear of the loss of customer share of wallet should drive banks to consider how they can offer digital solutions, from providing digital applications and onward.

More employees demand a digital emphasis. A 55+-year-old banker can *probably* survive his remaining years without leading a digital transformation. A 30 or 40 or early 50 year old banker cannot. Some banks are suffering from an internal generation gap. Those senior managers that fail to listen to the next generation of bank leaders harm their bank in multiple ways. Digitally savvy bankers have multiple career options both inside and outside of financial institutions. We have already seen bankers that view their bank as a laggard leave for greener digital pastures.

Digital capabilities are more available than ever for all banks. One of the reasons cited for the recent Sun Trust and BB&T merger was the assertion that a larger bank would be better able to become a digital player. That sounds good as PR, but has no fact base to back it up. Some of the most innovative digital players are small; others, like Chase, are large. Even Chase with its massive size decided to work with OnDeck in small business lending and a myriad of firms in other areas.

Banks now **MUST** learn how to work with third party Fintechs. They may need an internal person(s) who becomes the go-to party for Fintech questions as opportunities and needs arrive. In a sense that person can serve as a consultant to line and support groups, advising them (but nor deciding for them) concerning whom they should consider to meet specific needs. Banks need to lean on their Core providers and also access independent companies.

In a previous newsletter I mentioned a CEO of a $30B+ bank who decided to develop his own online and mobile platforms, based upon his desire for control. Time will tell, but that seems like an egotistical error he and, more important, his stakeholders will regret.

Digital tools can introduce cost efficiencies to lower operating expenses across the bank. Applying digital tools effectively can result in consumer and commercial bankers being more productive, reduced fraud charges, improved credit underwriting, etc. In virtually all aspects of banking, a digital "solution" exists.

Final thought. That's not to say, however, they all digital options are appropriate for your bank, but many are worth considering. Further, without good management practices, digital will have limited impact; leader still need to lead.

The digital revolution has been happening for quite a while in non-bank areas. Having reached the tipping point, banks have no option but to join in. The good news is that digital can address areas of both fear *and* greed.