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American Bankers Association

# FINTECH PLAYBOOK

## Executive Summary

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# Executive Summary

For more than two centuries, banks of all sizes have helped American communities thrive, providing financial convenience, security and capital for economic growth. The digital revolution is the latest wave of change, and it poses a challenge even to banks with deep roots and a long history of providing unmatched levels of personal service.

Today, the banking industry is riding this wave of innovation, contributing to the omni-channel banking experience customers expect. New lending platforms are offering new ways to underwrite loans and provide credit where it's needed. Big data and predictive analytics provide tremendous insights to help bankers better target the needs of their customers and communities. Automation and cloud solutions can dramatically reduce back-office costs and make banks nimbler.

Bank leaders recognize the imperative opportunity to continue their role in financial innovation, injecting ever-new technology into their existing business models to satisfy customer desires and achieve greater efficiencies. But with more than 3,000 recent startups in the financial technology, or fintech, sector, identifying the best partnership opportunities can be a challenge.

The stakes are high. Accenture estimates that community banks could lose up to $15 billion of revenues to fintech companies, digital leaders and other banks going digital—nearly 15 percent of the projected revenue pool for all community banks in 2020. The potential gain is also staggering, with an estimated uplift in operating income of $20 billion by 2020 for those who adopt financial technologies. This amounts to more than a 52 percent increase.

**Banks that invest in fintech stand to**

**GAIN up to $20B**

in operating income by 2020

**while those that ignore it could**

**LOSE up to $15B**

of revenues to fintech companies, digital leaders and other banks going digital

This playbook will help banks define a strategy and put a plan in place to leverage digital technologies in order to remain relevant, competitive and true to the business models that have established them as a vital part of their communities.

## The Changing Face of Banking

More than $50 billion has been invested in almost 3,000 fintech companies since 2010, making financial services one of the fastest-growing areas of the technology sector.[1] Although the headlines often focus on the “disruptors,” many new entrants are looking to partner with banks to capitalize on the white space between how things are and how they could be.

Fintech and digital technologies are affecting the banking industry at all levels and in all areas of the business.

**Channels:** Emerging technologies are making integration and true omni-channel a reality with plug-and-play capabilities that can be implemented in weeks, not months or years.

**Lines of Business:** Digital technology is rewriting customer expectations for each area of the business. For example, Apple and Android Pay are providing a new payments platform, while technology is changing the online lending application process, and new underwriting platforms are enabling small banks to tap into the power of big data on a local scale.

**Bank Platforms and Processes:** Fintech and digital technologies like cloud services and robotics are rewiring the back and mid-office, fundamentally reducing costs.

Deciding how to respond to new and external forces that are changing the market is top of mind for many bank executives.

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### Four Drivers of Change

1. Customers’ adoption of digital and mobile banking channels
2. High costs of traditional physical distribution
3. Changing frequency and expectations of customer interactions
4. Need to integrate channels to drive a consistent customer experience

1. Accenture, “FinTech and the evolving landscape: Landing points for the financial services industry,” 2016.

## Capitalizing on Fintech

With a wealth of options, a perpetually changing landscape and an army of motivated innovators reaching out, bank executives face a challenge in deciphering the fintech puzzle. ABA recommends a phased approach that aligns to the unique needs of each bank.

PHASE 1 NOW

**Establish a baseline.** Bank executives should start by identifying what areas are most important to profit and near-term growth, and which customer segments are critical for their bank. For some, it might be deposit generation, for others it may be consumer, small business or commercial lending. Initial efforts should focus on what is most important to the bank's strategy and how the bank can distinguish itself.

PHASE 2 6–12 MONTHS

**Close major gaps.** With the baseline established, banks should look for the greatest opportunities to differentiate themselves. Products and services exist that can help quickly close the gaps, including off-the-shelf capabilities and services. One example is cloud-based services that have worked with a bank of comparable size or require minimal or no back-end integration.

PHASE 3 12–24 MONTHS

**Focus on the digital-centric customer.** Every bank has gaps between how it interacts with customers in the physical (branch) and virtual worlds. A prioritized roadmap focuses attention on closing those gaps. For example, offers sent through the mail could be duplicated in other channels, like mobile, online and ATMs. Technology can help deliver consistent experiences across channels and products.

PHASE 4 24–36 MONTHS

**Drive transformational changes.** Based on priorities established in phases 2 and 3, bank executives should identify the four to five transformational changes that align with their strategy and transform their positions. It is important to track technologies—both the core technologies that become a barrier to change and the innovative platforms that will change the game three years from now but are just starting to be developed.

There is tremendous opportunity for banks in the current wave of digital innovation. Fintech can be disruptive, but it can also help banks meet changing customer needs, deliver innovative products, reduce costs and deliver exceptional customer service.