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BLOG POST

I ghostwrote this blog post about how banks can compete with fintech companies. This post was ghostwritten for Tuatha Consulting, a firm that helps rapidly growing companies use technology to solve business problems and to build for the future

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BLOG POST
500 words

The One Thing Banks Must Do to Thrive in Today's Disruptive Environment

Reading today's financial headlines it is easy to believe that banks are under assault. Despite a thriving economy, banks are facing narrower margins as they deal with consumer friendly regulations, competition from rapidly growing FinTech startups, and non-banking encroaching on traditional banking territory.

However, if banks are willing to adapt to the new reality, there are many opportunities for them to thrive. The one thing banks must to do to prosper in today's disruptive environment is to leverage their strengths through strategic alliances with their rivals.

If You Can't Beat Them, Join Them?

FinTechs are here to stay. Companies like PayPal and Intuit have proven that there are robust business models in this nascent industry capable of surviving even sharp downturns in the economy. Likewise, massive companies like Amazon, Google, and Apple have demonstrated that they have the technical skills and capital to compete with banks in areas banks dominated.

While these tech companies have a lot to offer in terms of innovation and big data analysis, banks are not without their strengths. If banks don't want to go the way of bookstores and travel agents they have to learn to coexist with these new threats.

They need to find areas where they can form strategic alliances that benefit both companies, but that don't erode a bank's most important asset—the trust of its customers.

Understand the Threat From FinTechs and Non-Bank Rivals

Forming strategic alliances doesn't mean ignoring the threats from FinTechs and non-banking rivals. Instead, it means gaining clarity of the threat and then moving to protect areas of vulnerability.

Banks lack the novelty, innovation, and cutting-edge technology that FinTech firms have. Banks also lack large, next generation distribution networks that many non-bank rivals have.

The biggest threat these other firms pose is in luring away wealth management, business lending, and consumer lending clients from banks. Banks are already seeing their wealth management client base erode significantly. Banks cannot afford to lose the customer relationships that power their businesses.

Understand Areas of Partnership Opportunity

Like in Judo, banks have a chance to use their opponents' strengths against them. Banks have significant advantages of their own. They have years of trust and goodwill from their customers. They have networks of physical branches. They are already chartered to conduct business and consumer lending. Banks also have large amounts of historical financial and customer behavioral data.

Banks can blunt their rivals' strengths by forming limited alliances. One example of this strategy is the relationship between JPMorgan Chase and the FinTech firm OnDeck. JPMorgan is improving its customers' experience and maintaining control of the customer relationship by partnering with OnDeck to use their technology to make loan decisions faster.

Banks of all sizes can form these same types of alliances. Not only can banks do this, they must do this if they want to thrive in the coming years.

Some possible areas where banks can partner with their rivals include:

- Fraud protection
- Improving customers’ online experience
- Making banking services more convenient
- Bringing new customers into the banking system
- Providing physical locations to improve customer service

If banks are shrewd in their structuring of these alliances, they will protect their market positions, and become indispensable partners to their former rivals. Like a well-executed Judo throw, banks will be able to remain on their feet.