AURIGA PERSPECTIVE

Harnessing the power of FinTech: special forces in the battle of branch banking

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Although FinTech is a relatively new term in banking, it has moved past the stage of being a threatening new phenomenon feared by traditional banks. Nowadays, it's far more likely to be seen as a potential ally that banks can work with to further drive their competitiveness. Indeed, McKinsey has recently said that banks face a bigger threat from giants Alibaba and Google. With claims like those though, it's important to have a clear understanding of what is meant by 'FinTech', as it's easy to associate the term with start-ups, rather than established companies. Having reviewed 200 papers citing the term, Patrick Schueffel concluded in his own study that *"FinTech is a new financial industry that applies technology to improve financial activities"*. I believe that despite being well established, Auriga still fits firmly in Mr Schueffel's broader definition: throughout our 25-year history, our technology has demonstrably driven huge improvements in bank processes.

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FinTechs driving innovation

Successful inventions and innovations always reflect wider trends in society, which are in turn closely linked to customer needs and behaviours. Importantly though, they also reflect the pressures felt within our industry: the right timing is critical for FinTechs to have the right impact. As PSD2 paves the way for a new group of FinTechs, are we seeing a changing of the guard or are we simply forgetting the original FinTechs like PayPal, because their scale now makes them seem part of the 'establishment'?

Reflecting on past innovations in financial services, Auriga has seen many changes in branches – but how can we judge which has had the most significant impact? Automation clearly has a large part to play by speeding up transactions, reducing costs and increasing functionality and access hours. Inventions like Teller Cash Recyclers have enabled face-to-face conversations unhindered by glass and optimised the feel and configuration of many branches. Advances in technology have also enabled more segmented staff roles, such as bank staff equipped with tablets who can greet customers and drive down queues.

Banks have expended great effort in following their customers into retail environments, but the greatest impact has undoubtedly come from the ability to meet customers in virtual spaces, like online banking, apps and interactive video links. Auriga developed its WinWebServer (WWS) suite to support banks with the ongoing challenge of providing and monitoring a consistent customer experience across all these channels. It is undeniable that the role of the branch is changing, and this is something we recognise.

Branches must however still achieve two key things: customer engagement and valuable improvements to customer relationships. Some FinTech deployments concentrate on removing the negative impact of mundane banking tasks, for example using Artificial Intelligence to drive faster KYC. Others use Augmented Reality to transform the branch experience through gamification, for example by enabling customers to throw a virtual ball at a goal to answer a question. Against the backdrop of bank digital transformation agendas, bank-sponsored API developer portals and significant staff reductions, FinTechs can apparently make even opening a bank account fun!

The strength of FinTechs lies in their creative approach to problem-solving. They find ways to improve their processes that the incumbent banks cannot. FinTechs have the freedom to work both inside and outside core banking systems, and benefit from a laser-like focus. Auriga's WWS OneToOne is an example of a solution unlikely to come from within a bank, as it sits outside core banking use cases. But while multimedia, personalised and interactive campaigns aren't essential for banking, they are critical for banks that want to survive in the modern digital era.

One of the most compelling advantages of working with FinTech partners is their ability to refine and improve propositions quickly. The development lifecycle is dramatically reduced, meaning that customer testing and feedback can be more swiftly followed by new updates. FinTechs are able to deliver at this pace because for them, fast-failing impacts relatively few customers. In some cases, customers give their buy-in in advance and knowingly contribute to beta testing (e.g. Monzo Bank in the UK). Recently, even some of the biggest banks have been deploying this strategy, notably HSBC with its beta platform now used by 10,000 customers.

Front-end developments are understandably easier for all of us to identify with, which can explain why back-end services tend to grab fewer headlines, despite FinTech's significant potential impact. The ability to overcome traditional banking operational headaches and contribute to cost reduction may seem less newsworthy, yet it is essential to the running of a modern branch. Solutions like Auriga's WWS Cash Management enable branches to keep pace with the demands of today's cash management challenges, for instance by allowing accounts to be immediately credited from remote deposit devices, and giving critical traceability in the cash cycle.

Learning from FinTechs

To enhance their operations and service levels, banks and financial institutions are engaging with FinTech in different ways around the globe. Many host hackathons to solve strategic problems, such as how to improve customer experience, while others invest millions directly in FinTech accelerator funds to support rising stars. Some banks are now even acting as FinTechs themselves, for example JPMorgan Chase, which has launched its own app-based bank Finn.

We can still safely assert that most established banks are slower than their FinTech counterparts when it comes to the creation, testing and roll-out of new concepts. Partnering with a FinTech can, in some cases, lead to an uncomfortable culture clash, reminiscent of when banks first started adopting multivendor solutions after years of sole-vendor solutions and in-house development. The key challenges for the bank of the future are to reduce the negative impacts of FinTech-type change, and to consistently deploy new ideas by rolling out and scaling up successes for maximum customer impact. While this transformation is taking place, tools like WWS Business Analytics Management can be used to proactively monitor how customers are engaging.

FinTech isn't just about a generation of niche solutions or rapidly scalable, innovative ideas. Monzo's success in the UK, despite some IT glitches, can be credited at least in part to a significantly greater volume of customer contact than can typically be seen in banking. Monzo cleverly manages expectations and enables customers to mitigate the impact of any glitches themselves, for instance via messages like *"bring an extra card with you today"*. This culture of openness in FinTechs extends outside customer communications and flows through to day-to-day operations.

How many banks (or individuals within them) will bet their success on overcoming the toughest challenges in the industry? Or be willing to take a step backwards to take two forwards? The risk in an established bank is simply too great. Banks can, however, learn from the single-minded attitude of FinTechs regarding purpose and empowerment of staff. All team members in branches, across all functions that support delivery for customers, need to share a clear organisational goal and understand their objectives. The power of FinTech goes beyond technology, incorporating a variety of 'human' skills, too.

To use a military analogy, the deployment of FinTech by banks can be compared to the use of Special Forces: they are employed to carry out very specific, difficult missions that the rest of the team are not as well equipped to tackle. They can then act as champions to train the rest of the organisation in what they do best. To harness the power of FinTechs, banks need to take a similar approach. They must learn how best to work with them and adopt a more flexible style of operation, with better systems and ultimately a more customer-focused performance culture. ■

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