

Fintech:

COMPETITION OR COOPERATION?

By Susan Koss

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Seemingly overnight, Fintech has become engrained into our everyday lives without us even realizing it. When you place an order on your phone for a quick pick up at your favorite coffee shop, you are using Fintech. When you use an app on your phone to transfer money to a friend or to deposit a check into your bank account, you are using Fintech. Fintech use is growing at an astounding pace and it doesn't appear to be slowing down anytime soon.

Since inception, Fintech has completely turned the financial services industry upside down. Even though Fintech has been around for 15-20 years, only in the past five to seven years have many traditional financial services companies dramatically ramped up their Fintech initiatives.¹ Fintech startups have been ramping up, too. In 2018, Fintech startups in the U.S. raised \$12.4 billion in funding, 43% more than 2017. Fintech startups need those dollars as they tend to burn approximately two to three times more cash compared to other startups.² This is attributed to factors such as highly competitive compensation for tech positions and regulatory hurdles that many traditional banks face.

Originally, Fintech startups and traditional banks were rivals fighting for every client. However, a new phase is taking shape in the evolution of the Fintech sector. Many traditional banks are now strategically looking to team with emerging technology companies in order to gain access to new markets and products. At the same time, many Fintech startups have pursued partnerships with large traditional banks to obtain industry and regulatory knowledge, develop into new or existing markets or simply cash out.³

But Fintech companies are not just seeking to establish relationships with large banks, they are also partnering with smaller banks. Smaller banks struggle with keeping up in a changing industry because they often use outdated technology, lack an innovative culture and their physical branches are not as essential as customers go more mobile.⁴ However, smaller banks are attractive since they are nimble and quicker to get things done compared to larger national banks.

Fintech companies can provide incredible resources to banks related to enhanced private data protection and customer experience. As Fintech companies mostly rely on mobile applications for banking and financial services, security risks increase. Customers are concerned with the threat of unauthorized access to personal financial information. Consequently, a better customer experience can be achieved by heightened cybersecurity through strengthening the infrastructure of applications and usage of firewalls. Fintech companies can help banks achieve these initiatives along with blockchain and other emerging technologies. However, both Fintech companies and banks will need to remain on alert as tech giants make further inroads into areas such as payments, credit and deposit accounts.⁵

The future for Fintech seems limitless given the various opportunities and fast paced technology advances. Yet, Fintech success will not come at the expense of traditional banks and financial service companies. The convergence of Fintech companies and traditional banks is likely to continue to grow as they form strategic partnerships and share technology and resources. As Fintech evolves it will certainly continue to impact our everyday lives in ways we can't even imagine.

¹ Deloitte - Fintech by the Numbers, 2017, pg. 1

² Kauflin, Jeff, Forbes, "11 Biggest Fintech Companies in America 2019," February 4, 2019

³ Deloitte - Fintech by the Numbers, 2017, pg. 1

⁴ Rooney, Kate, CNBC "Small banks you've never heard of are quietly enabling the tech takeover of the financial industry"

⁵ S&P Global Market Intelligence - 2018 US Fintech Market Report