Editorial

FinTechs and Banks: Co-opetition for Technological Innovation

Moritz von der Linden

Moritz von der Linden
Executive Vice President
and Head of Sales
CRX Markets AG

With more than USD 12 billion invested into FinTech ventures globally in 2014, everyone is talking about FinTech. In the light of still increasing regulatory requirements, high competition, and eroding margins the questions is: will the banking industry be able to keep pace with the innovative capacity of FinTechs?

The majority of FinTech startups is operating in the retail banking sector. Technological innovations are outperforming most of the products of traditional banks. Having had online banking around for two decades, the transformation of retail banking just started a couple of years ago. Even today, mobile banking solutions are lacking the user experience and functionality of, e.g., online shopping apps. Hence, new ventures have the chance to focus on functionality which caters to customers' needs.

Exemplary companies are PayPal or Iwoca and others. Each of them started off by covering one single step of the specific process chain in order to build a superior solution. In this context, the conflict of existing banks becomes obvious: each step in the individual value chain is vulnerable. Given their limitations based on overall strategy, organizational speed, and resources, banks might not always allocate investments in the most efficient way. Historically, retail banking was dominated by rather large banks and client contact was personal.

Today, with a market full of online banking and new venture-driven innovations, the customer needs have shifted. Clients are looking for an intuitive online solution rather than a personal contact in one of the diminishing number of branches. This development threatens banks and triggers action. Not only Deutsche Bank – having announced to invest up to EUR 1 billion over the next years in digitization – is investing in FinTech startups, but also other banks like Commerzbank try to get a grip on the fast moving digital solutions, e.g., by investing into Iwoca. Another way to face competition is the in-house solution. One example is the "made in Germany" equivalent to PayPal – Paydirect, which recently started the pilot phase. Press commentaries named it a barrel burst coming almost 10 years too late.

Within the corporate banking world, things are different. Banking solutions are integrated into the technological backbone of corporates and have to fulfil extremely high standards. The terrain is much rougher for new ventures. Nonetheless, the acquisition of 360T by Deutsche Börse has shown that the corporate banking market bears huge potential. Followers like CRX Markets also try to gain their share of core competencies in corporate banking. The business model of being a bank-independent trading platform for trade receivables requires a regulatory approval by the BaFin. Despite higher complexity, CRX together with anchor clients like Lufthansa opens the door to the enormous B2B-market of short-term financing, which has been single-handed under control of banks and factoring companies. Working with banks as funding partners on its platform, CRX is also an example for a fruitful co-opetition.

Summing up, the traditional banking world could break up into three playgrounds. First – the core markets of banking like public financing, corporate finance, and M&A. Here, competition by new ventures could be seen a minor threat due to the fact that the business is global, complex, and requires long-time experience. Second – retail banking, where already numerous startups try to snatch market share and barriers are lower than in the corporate world. Third – new markets based on new ideas, where the challenge is to think of innovative ways on how banking could look like in 20 years from now.

Ultimately, each player, bank or startup, has to decide if they can challenge their status quo and actively participate in designing change.