The Benefits of Fintechs for Traditional Banks and Customers

The immense growth seen in the Fintech industry over the past decade has benefited the financial sector. Whether it be traditional banks and their account holders, credit unions and their members, or financial service providers and their clients, the attributes of the Fintech market have laid the foundation for exponential innovation.

Fintechs offering niche services to traditional banking institutions help cut administrative overhead, operational inefficiencies, and reduced skilled staffing challenges. Before the advent of the Fintech industry, legacy institutions were forced to dedicate valuable resources to areas in which they had little expertise, such as payment and card processing. As fraud trends increase and modern technology evolves, fraud and dispute management has become too complex for institutions to manage in-house efficiently. Fraud and dispute management is yet another area where Fintechs can offer expert solutions for the financial industry. In this article, Quavo experts detail the benefits of Fintechs and how the financial industry can leverage Fintechs to solve complex operational challenges and deliver tailored solutions while maintaining access to information and valuable partnerships.

Growth & Awareness Within Fintechs

The Business Research Company's July 2020 report shows the predicted growth rate of global investment in the Fintech industry to reach 25% through 2022 as financial institutions continue to employ innovative, streamlined, and cost-effective third-party solutions. The Fintech market has seen a surge in growth over the years due to the end-to-end services, niche solutions, and specialization provided by Fintech companies. The State of Venture Capital report stated that Fintech organizations accounted for $128 billion of the $254 billion total venture capital investments in 2018, holding a little over 50%, showing dominance among other emerging financial sectors.

With any new market, the fight for brand awareness is crucial, especially amid traditional processes. From the 2019 EY Global Fintech Adoption Index, a minuscule 4% of global consumers were not aware of Fintech services. According to a 2020 McKinsey report, only 42% of respondents in the United States stated that they had a Fintech account. Categories within the Fintech industry, such as investment, financial planning, and lending services, are automating their processes, working to catch up with the wave of payment and insurance. The assets Fintech organizations present separates them from worn-down approaches within traditional financial services. In the same 2020 McKinsey report, 27% of respondents trusted Fintechs, almost equal to the trust within traditional banks at 30%. Fintech companies took the lead in the easily adaptable nature of solutions and convenience factor.

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Tailored Solutions Delivered by Fintechs

The technological capabilities and service specialization inherent to Fintech companies are helping the financial industry streamline complex financial procedures. In many situations, Fintechs serve as a third-party collaborator within a larger company. For example, First Tech Federal Credit Union searched for a member dispute solution and discovered Quavo offered an out-of-the-box solution. QFD ™, an automated dispute management solution that easily fits into FirstTech's existing environment. The results between the collaboration led to a change in how small-dollar disputes were processed, increasingly satisfied FirstTech members due to improved efficiency and responsiveness, and more.

Fintechs tend to translate complex organizational problems into user-friendly technological solutions where Fintechs handle things that the FI is not proficient in, allowing the clients to focus on other business priorities.

Integrating third-party solutions is becoming increasingly accessible as more companies adopt cloud based technology and release APIs. Such efforts have led to the widespread adoption of "open banking" principles throughout the financial industry. Open banking has and continues to foster a reciprocal growth cycle for both financial institutions and Fintechs. Financial institutions have easier access to tailored third-party solutions, while Fintechs see a steady increase in potential clients and opportunities for innovation.

Fintech Fact:

Cloud based Fintech solutions require minimal to no operational disruptions to financial institutions.

Quavo's Example:

Quavo's Disputes as a Service offering features cloud based technology with existing API-enabled integrations with core banking, merchant collaboration, and financial service providers. What's more, Quavo's software does not require lengthy or costly implementation and is supported by continued service after onboarding. Categories within the Fintech industry, such as investment, financial planning, and lending services, are automating their processes, working to catch up with the wave of payment and insurance. The assets Fintech organizations present separates them from worn-down approaches within traditional financial services. In a 2020 McKinsey report, 27% of respondents trusted Fintechs, almost equal to the trust within traditional banks at 30%. Fintech companies took the lead in the easily adaptable nature of solutions and convenience factor.

Transparency Within Organizations

Open banking has resulted in a shift in how traditional financial institutions employ third-party solutions and services. Rather than relying on project-driven vendor relationships, FIs increasingly view Fintechs as long-term business partners, resulting in efficient knowledge transfer, continuous innovation, increased oversight, and easily accessible information.

Before APIs and cloud technology, financial institutions typically contracted outside organizations for custom software builds or outsourcing. Custom builds rely on project-based business relationships that result in deficient knowledge transfer and limited technology (e.g., once a project is complete, the business relationship ends, preventing continuous innovation). Similarly, outsourcing is prone to deficient information transfer and limited technological capabilities. Outsourcing risks create unseen complications because outsourced processes are simply that, unseen.

New technology has enabled more efficient and robust Software as a Service (SaaS) solutions, and Fintechs reap the benefits. Specialized financial technology requires continuous, expert-driven support. This further facilitates active partnerships between financial institutions and Fintechs transparent and dynamic communication with financial institutions.

Transparency between financial institutions and Fintechs also helps ensure brand standards and compliance requirements are upheld. A 2020 survey distributed by Kroll indicated 29% of senior decision-makers in financial services estimate that their overall compliance costs (training, fines, and penalties) in 2020 were more than 5% of their firm's overall revenues. The report also showed nearly 19% of financial institutions still say compliance remains the most significant risk to their business. Managing the risk factor and controlling the costs of compliance have remained an ongoing issue within FIs. In a highly regulated industry, outsourced processes are less likely to uphold compliance with federal regulations. For example, issuers who outsource their entire fraud and disputes process tend to be blind-sighted when it comes to compliance, often receiving fines and penalties for the noncompliance of their outsourcing partner. Compliance is also an issue for software that is not supported with continued service after implementation. Financial institutions often struggle to keep custom-built software up to date with the latest financial regulations because they do not have the necessary skillsets in-house.

Fintech Fact:

Fintechs offer solutions for specific pain points and complex processes while enabling transparent processes. These candid qualities of working with Fintech do not stop within the business, and the benefits will ultimately trickle down to the financial institution's account holder experience.

Quavo's Example:

At Quavo, we employ automated technology and artificial intelligence to streamline the fraud and dispute management process. Our cloud based SaaS solutions can be integrated without lengthy or costly implementation and are supported with continued service well after onboarding. Quavo's Disputes as a Service offering features a pay-per-action pricing model, so issuers pay only for what they use. Our QFD automated dispute management software works across multiple channels, ensuring easy access to information and transparent processes. Quavo's solutions are automatically kept up to date with the latest network mandates and regulatory requirements.

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Embracing Fintech Innovation

According to the 2020 PWC Financial Services Technology and Beyond report, 81% of banking CEOs fear the rate of technological change. On the other hand, 52% of asset management CEOs believed cloud based services would be central for their company. These contrasting statistics emphasize how FIs view Fintech organizations. However, the continued evolution of how banking and financial services are managed is why Fintechs and banks should work together. The goal of Fintech organizations is not to overtake the traditional banking sector; instead, align the goals of both parties together to offer crucial solutions in the next generation of banking.

Partnerships between financial institutions and Fintech organizations are beneficial for all parties; Fintechs build trust by coupling their name with more established financial players. Traditional FIs can benefit from being at the forefront of financial technology without exhausting internal resources. Both parties can better serve clients by having a continued partnership that enhances insight into one another's unique business processes. The UK FCA reported that 43% of US financial institutions depend on legacy infrastructure and programming language from 1959 called COBOL. A 2020 PWC report indicated outdated processes and limited updates make a company much less dynamic than its competitors with a functional Fintech relationship. As the industry continues to automate and introduce AI solutions, the consequences for archaic systems will only grow. In the same report, some consequences include the ability to stay ahead of market changes given how long it takes to develop and release functionality changes within legacy systems and the expenses between legacy systems and infrastructure architecture to roll out competitive solutions.

Fintech Fact:

Traditional financial institutions embrace innovative Fintechs in theory, but not in practice for fear of lengthy implementation, compliance issues, or simply because of outdated legacy infrastructure requirements.

Quavo's Example:

Artificial intelligence is the future of financial innovation; Quavo's fraud management AI, ARIA™, helps companies tackle emerging fraud trends and new technology with ease. ARIA conducts fraud investigations and delivering decisions as a human would within seconds.

Leveraging Fintech partnerships to solve complex business and operational problems is the future of the financial industry. Increasingly, we have seen underequipped FIs struggle in the face of emerging financial technology and consumer trends. This is especially true for fraud and dispute teams that still rely on manual processes and overworked employees. Quavo's innovative Disputes as a Service offering eliminates up to 90% of the manual work required to manage fraud and disputes through our automated software, AI technology, and human intelligence services. Quavo assures regulatory and network compliance with automatic product updates and continuous support by our experts.

To learn more about Quavo's automated dispute management solutions, visit us online or email an expert at experts@quavo.com. Start automating for tomorrow, today.

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