To Fintech or to double Fintech, that is the question

Fintech company providers seem to grow by the week, delivering innovative and intriguing solutions, with the hope to bind solutions to current product sets that financial institutions offer. What was once a love-hate relationship is now greeted with open arms. There are more fintech companies than there are financial institutions that have the funds to invest. Fintech companies target financial institutions with an asset size of two billion and up, leaving community banks out of the loop for now. This will come to an end as the market saturates, moving the direction of fintech's toward the community banking industry, which can level the playing field. What a perfect storm, solutions come down in price and community banks quench to invest to keep up with the top tier banks. There are three main market segments fintech companies can serve, retail, small business and large corporate. Each market segment is a different beast with their own objectives, requirements and rules to be followed. Commercial banks are not in the technology business, all the more reason to invest and partner with new finance technology companies. The goal is to utilize fintech solutions and advance current financial institution offerings. Fintech's are currently focusing on creating solutions for artificial intelligence, lending, payments, security and onboarding. Tremendous opportunities lie in developing solutions for the top five focus segments that create an end result of increased speed of transaction settlement and access to funding.

Strategic partnerships with fintech providers is the key to growth, especially when it comes to technology that changes relatively quickly. There are two main strategies banks can choose from when investing in fintech's, partner or purchase, and it all depends of the objective of the bank. Capital One and TD Bank are great examples of the latter acquiring artificial intelligence companies, Layer 6 Inc. (TD Bank) and Notch (Capital One). The acquisition of these companies does provide insight to what we can expect in the future. All in all, financial institutions are looking to creating solutions to assist customers with day to day financial needs versus through the lens of major milestones, such as purchasing a house.

Onboarding and online applications in the commercial space is growing rapidly. Know Your Customer (KYC) initiatives, confirming one’s identity, is becoming fully automated and integrated into online platforms. This will allow commercial clients to use multiple methods of digital identification to open accounts, enlist in new services, and upload applications online.

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This includes secure document delivery feature, a key enhancement which cuts mail float time and access to documents faster than ever before. Chase is currently offering the service via Chase Connect for small business and large corporations. Financial institutions are continually expanding the application process digitally versus the standard manual paper process, cutting cost and representative involvement while boosting security measures. Informa analysts foresee future discussions around security and onboarding to involve blockchain technology.

The most drastic change took place in the payments arena, both in the commercial lending space and transaction settlement. The Clearing House launched the Real-Time Payments (RTP) infrastructure, the biggest change in 40 years. As the U.S. prepares for real-time payments in the digital economy, BNY Mellon, PNC, SunTrust, U.S. Bank, JPMorgan and Citibank will be the first to use the payment system. Before “instant payment” transaction providers such as Zelle, were working off bank to bank agreements. Consumers would receive instant funds, but transfers on the back end took up to two business days to settle. Fintech's are creating change on the lending turf, providing needed funds to small businesses and corporations. When company expansion is crucial and banks deny funds for multiple reasons, the alternative lender route is the solution. Fundera and Kabbage are great examples of online fund providers, allowing access to funds faster than traditional banks with seamless approval. However, rates may be higher with alternative lenders.

This is a very exciting time for the finance industry, especially in the commercial space. Informa analysts believe fintech's are not a fair-weather business by any means. The number of fintech expos accurately confirms how relevant and impactful the solutions that are developed. LendItFintech and Finovate are currently the largest conferences. Partnerships allow financial institutions to stay competitive, adding value with new products while enhancing current infrastructures that will benefit both consumers and businesses. Creating more efficient products for less is important for growth, and most importantly, for the expansion of the financial banking industry. With the top 50 financial institutions squirming to be number one with innovative and first to market solutions, the competition is sure to be sweet. Consumers will benefit the most with end products. Informa analysts believe that constant innovation is the new way of thinking and financial institutions not willing to look beyond the current processing methods, will be left behind. Fintech's and bank collaborations strengthen relationships and longevity with consumers.