HOW TECHNOLOGICAL DISRUPTION LEADS TO GREAT FINTECH SERVICES

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The CEMS-Corvinus business project saw five CEMS students involved in a business project working alongside with MasterCard Advisors to assist a real client, a mid-sized Hungarian bank. During the project, the combined teams created case studies on more than seventy international Fintech solutions and companies, and then summarized the acquired information to determine significant trends and identify success and failure stories with the aim of helping the client client develop digital banking services. The student business project team presented their final research materials to the top management of the bank. From this rich experience, Kristóf Dócs of Corvinus Business School, Hungary, and President of the CEMS Club Budapest, shares his insights into how technological disruption can lead to tailored Fintech solutions for customers.

The European Union goes Fintech

Rapid technological disruption in recent years has produced a bouquet of concerns but also opportunities. In force since January 2016 and mandatory by January 2018, the European Payment Services Directive (PSD2) is one such initiative in the attempt to seize the opportunities offered by new technologies. On the surface, PSD2 greatly improves market efficiency and it is hard to find a counter-argument against its implementation. Its goals include laying a legal foundation for a better integrated internal market for electronic payments within the EU, a comprehensive set of rules for making international payments within the EU as easy, efficient and secure as payments within a single country, reinforcing the Single Euro Payments Area (SEPA), and opening up payment markets to new entrants – leading to increased competition and, ultimately, greater choice and better prices for European consumers. However, there is always an argument against regulations for an entire continent: this is its rigidity. Indeed, we can witness on a daily basis how complicated it is to agree on something on EU level, and if a regulation becomes outdated, implementing a new one may take a large slice of time on this scale. It can especially be problematic on such a fast-paced market as the financial market, with regulatory reactions having to be equally as fast in order to maintain competitiveness and avoid crises. The latter provides matter for concern for all of the EU citizens and firms.

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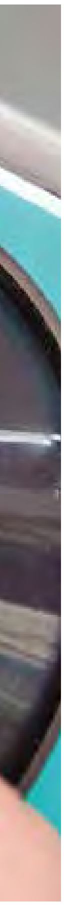
Banking and financial services: the impact of Fintech on organization, structure and human resources

Digital innovation transforms every industry on every level, and European banking and financial services are no exceptions. Typically, digital inroads affect those tasks which are repetitive and carried out by labour, for such tasks are the easiest to automate. And the banking sector is still characterised by a vast amount of these human-undertaken tasks. Until now, regulation accounts for the fact that that many processes are still paper-based, but as regulation changes and these processes become digital, automation will not only take over those jobs, but will also create large numbers of new positions. This is because new digital channels create tons of data and contain lots of information on customers that banks could effectively utilize. In this light, low value added repetitive jobs look likely to disappear but new highly skilled employees will be needed. As execution becomes more and more automated, and the workforce's focus shifts towards more creative tasks, the classical highly hierarchical organizational structure of banks will become flatter and previously unheard-of skills will be required.

But does Fintech mean the end of the all-important relationship customers have with their bank manager – when trust, listening and emotions play just as big a part in buying a service as the conditions and benefits it offers? Many Fintech firms would answer yes without hesitation, though the situation is more complicated than that. While it is true that emotions play a huge role in making decisions, it does not necessarily need personal, face-to-face contact. Facebook for example has a very close relationship with the most active users despite operating solely in the virtual world. Indeed, Fintech firms are eager to aim to achieve something similar, offering a personalized product but through automation. On the other hand, financial services are way more important for most people than Facebook and other social media players and bank branches do indeed seem to create a sense of safety and trust that is essential for financial services contracts to be signed. The question begs to be asked if it is simply a generational difference – today's youth being only too happy to use digital-only services, but it can be that a sense of trust can only be achieved through actual personal contact, proximity and relationship-building.



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PHOTOS LEFT & BELOW RIGHT: *(left to right) Gilles Dobbelaere, Kristóf Dócs, Stefania Vág (MasterCard), Bernadett Koncz, Katinka Földi and Franziska Gleiche*

Does Fintech mean an end to unethical business practices?

Some may claim that technology has produced a darker side to our daily transactions. Take, for example, when we book a hotel or flight online. Skipping from provider to provider in the space of a few minutes to compare prices, we return to the initial site consulted only to discover, to our astonishment and indignation, that the price has hiked to a level as high as its competitors. This leaves the customer not only forced into an option but also leaves a nagging feeling that he has been tricked into purchase.

Unfortunately, unethical business practices appear in the financial industry from time to time regardless of Fintech solutions, although regulators have historically been keen on ensuring safe and fair financial services since the early 20th century. The same is valid for Fintech. Indeed, new digital financial service providers must apply the same procedures as large banks, disclose the same information, and have the same capital adequacy requirements besides many other necessities. This cannot guarantee a fair and honest market for eternity, but it can mean that starting up unethical practices is much more complicated on the financial markets than in travel booking, for example, due to the aforementioned highly regulated nature of the market. In the end run, customers must be aware, as always – and not forget it – that these companies aim to make money. Choosing services carefully is therefore essential in order to avoid scams. Fortunately, it can be said that Fintech firms have been able to operate without any major scandals so far. We can only hope that it will remain so.

Fintech can benefit industry and customers alike

Fintech has the potential to provide tremendous improvements both on cost and quality of service. This is because automated processes require a less labour-intensive workforce which in turn could lower operational costs. Furthermore, advanced analytics in credit rating can improve risk costs, and Blockchain-based general ledgers have the potential to reduce the number of system failures. The list of cost-saving opportunities is almost endless, but I believe customers will most benefit from these savings due to high competition on the market. So much for cost-saving – but customers will benefit from improved service quality too. Clients will no longer need to visit physical high-street branches to do their banking, but do it online. Indeed, the customer experience of applications is fast-improving and more individually tailored products will soon be offered to meet their needs.

Will customers' needs shape Fintech or vice-versa? The answer is most likely both, with perhaps the upper edge going to customers' needs shaping Fintech. Most new startups have emerged on the idea that there is a customer need not yet met by current solutions. In the CEMS-Corvinus business project with MasterCard Advisors we scanned more than 70 Fintech solutions for analysis. While Fintech firms can shape customer behaviour, a majority of our findings pointed towards a typical founding story that an entrepreneur was dissatisfied with the offer provided by banks, a factor that triggered the desire to start his own service provider platform to fill this void.

ABOUT THE AUTHOR

Kristóf is a CEMS student at Corvinus University of Budapest and the president of CEMS Club Budapest. He spent his exchange at Stockholm School of Economics last fall and did his international internship at McKinsey and Company. Besides professional activities he enjoys playing the guitar and is a big fan of sailing.