

Fintech and the New Financial Landscapes

Integrating the Troublemakers: A Taxonomy for the Cooperation between Banks and Fintechs

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Fintech - Impact on Consumers, Banking, and Regulatory Policy

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In our presentation, we will explain the applied methodology, the resulting artifact, and our contribution

1

Introduction

2

Research Method

3

Artifact Description

4

Cluster Analysis

5

Contribution

6

Limitations and Further Research


The banking sector is undergoing fundamental changes

Challenges of Banks and Fintechs can be addressed by joining forces

Banks need to rethink their current business models


- Digital transformation raises new customer demands
- Technologies enables novel banking applications


 Banks obtain established customer relationships

 Banks are facing long innovation cycles

Fintechs work on alternatives to established banks

- Fintechs pick up technology-enabled opportunities
- Fintechs are quick and agile

 Fintechs need to establish customer relationships

 Fintechs are innovators in the banking sector

Innovation enables differentiation against competitors and is a critical factor for long-term success

- Paradigm shift towards inclusion of **external innovativeness** and cross-organizational cooperation
- Innovation is **not a single-player activity** but rather an inter-firm collaboration
- Organizations bring in expertise and **benefit from other organizations'** knowledge and technology



Cooperations between banks and fintechs need to combine innovative fintech characteristics, embodying the mindset towards new ideas and change, with banking controls, know-how, processes and assets

Sources: [1], [2], [3], [4] and [5]

Addressing the challenge, a fundamental analysis is required to lay the foundation for future research

The cooperation challenges banks and fintechs

- Banks and fintechs face **challenges** that can be **addressed by joining forces**
- The majority of **banks struggle** to meet the challenges and complexity of cooperations

Research has not developed solutions

- **Research started** in the realm of cooperation, innovation, and their coherences
- However, theory does **not fully account** for the idiosyncratic character of cooperation
- To date, **neither conceptual, analytical nor evaluating** work serves as support

A base for future work is necessary

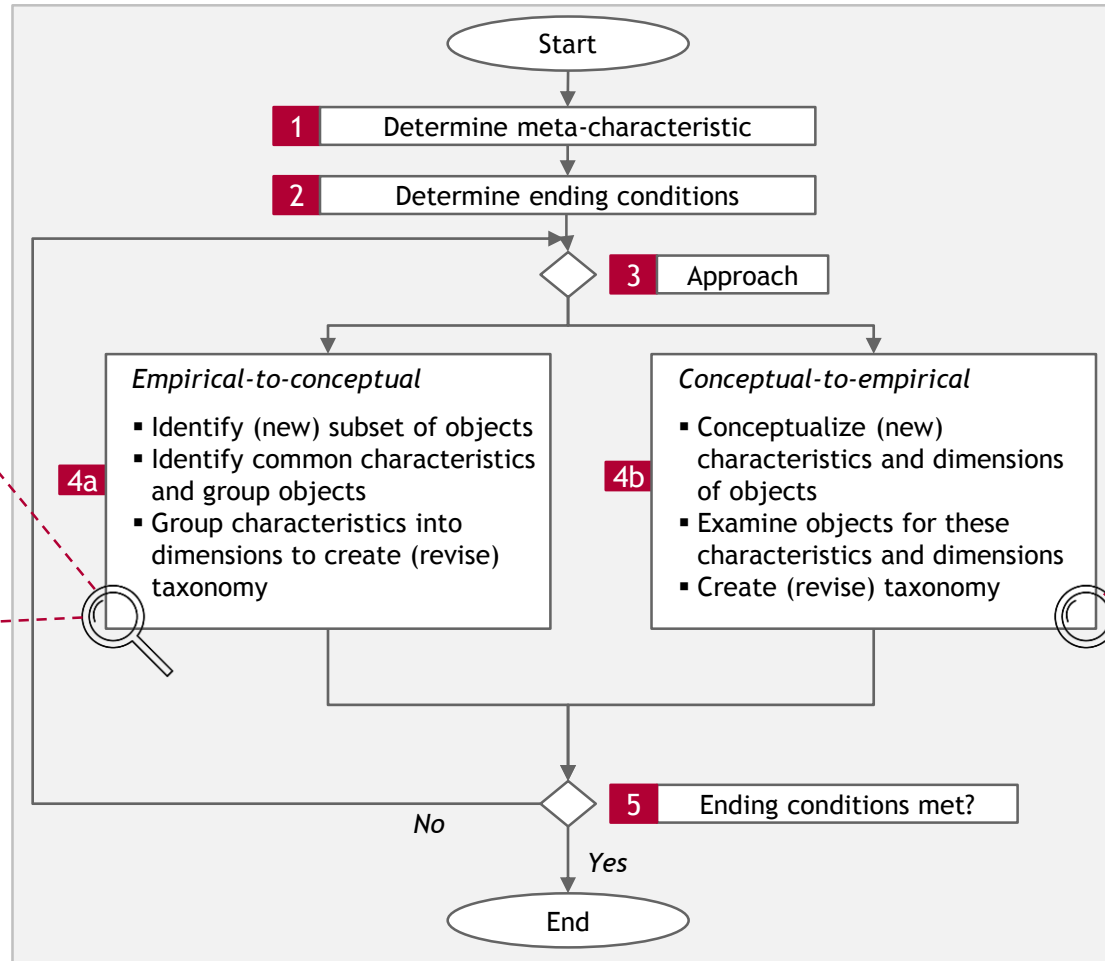
- To foster the knowledge of bank and fintech cooperations, **“theory to analyze”** is required
- Our **taxonomy allows to structure** the field of interest and to derive predominant patterns
- We lay the foundation for **further research and help banks/fintechs** to improve cooperations

Research question

Which design parameters of cooperation between banks and fintechs can be distinguished?


Sources: [5] and [6]

The applied method follows Nickerson et al. (2013) and draws on expert interviews, data and existing theory



Primary & secondary data

- Real-world cases
- Expert interviews

12  136

Relevant literature

- Cooperation
- Innovation
- ...



Source: [7]

The resulting taxonomy encompasses 13 dimensions and 43 categories

| | Dimensions | Characteristics | | | | | Description |
|-------------|---------------------------|------------------------------|---|---------------------------------|----------------------|---------------------------------|---|
| Cooperation | Cooperation Type | Acquisition | Alliance | Incubation | Joint Venture | | Which type of cooperation is chosen? |
| | Innovation Type | Bank-2-Customer Process | | Customer-2-Customer Process | Product | | What kind of innovation is involved? |
| | Maturity of Innovation | Introduction / Uncoordinated | | Growth / Segmental | Maturity / Systemic | | Which lifecycle stage is the product in? |
| | Value-chain Location | Customer Common Interface | Channel Solutions & Interaction Platforms | Financial market infrastructure | Core Banking Systems | Financial Market Infrastructure | Where in the value-chain is the innovation located? |
| | Business Ecosystem | Restricted by Bank | Restricted by Fintech | Restricted by Both | Not Restricted | | Who is restricting the business ecosystem? |
| | Holder of Innovation | Fintech | | | Bank | | Where the innovation is located in the cooperation? |
| Bank | Type of Bank | Commercial Bank | | Cooperative Bank | Saving Bank | | What type of bank is involved? |
| | Bank having Branches | Yes | | | No | | What is the bank's main distribution channel? |
| | Role of Bank | Service Provider | | Service Consumer | Investor | | What asset contributes the bank to the cooperation? |
| | Bank's Strategic Aim | Market Access | | | Technology Access | | What strategy does the bank follow? |
| Fintech | Category of Fintech | API & Infrastructure | | Cross Product Service | Current Account | | What kind of Fintech is involved? |
| | | Lending | Payment | Investing | Insurance | | |
| | Maturity of Fintech | Start-up | | Emerging Growth | Mature Stage | | Which lifecycle stage is the Fintech in? |
| | Fintech with bank license | Yes | | | No | | Does the Fintech hold a bank license? |

Within the database, we are able to distinguish 6 unique cooperation clusters - “Prevailing Pattern”

| | | |
|---|--|--|
| <p>1 The Ecosystem Bank (38%)</p> <ul style="list-style-type: none"> ▪ Focus on <i>Alliance</i> (90%) ▪ Ecosystem <i>Restricted by fintech</i> (80%) ▪ Innovation stays with <i>Fintech</i> (96%) ▪ Bank aims at <i>Technology</i> (86%) <p><i>Cooperate with fintechs to form an alliance and access the ecosystem</i></p> | <p>2 The Buyer (6%)</p> <ul style="list-style-type: none"> ▪ Focus on <i>Acquisition</i> (75%) ▪ <i>Aiming at Product</i> (100%) innovation ▪ <i>Bank</i> (100%) integrates innovation ▪ Bank aims at <i>Technology</i> (75%) <p><i>Acquire fintechs to integrate technology innovation</i></p> | <p>3 The Lending Bank (3%)</p> <ul style="list-style-type: none"> ▪ Focus on <i>Alliance</i> (100%) ▪ Innovate <i>Bank-to-customer process</i> (100%) ▪ Value-chain <i>Core banking systems</i> (75%) ▪ Ecosystem <i>Restricted by bank</i> (50%) <p><i>Integrate lending innovation into core banking systems to optimize bank-to-customer processes</i></p> |
| <p>4 The Investment Bank (33%)</p> <ul style="list-style-type: none"> ▪ Focus on <i>Alliance</i> (95%) ▪ <i>Aiming at Product</i> (86%) innovation ▪ Bank functions as <i>Service provider</i> (93%) ▪ Bank aims at <i>Market</i> (91%) access <p><i>Access investment markets by providing banking services to fintechs</i></p> | <p>5 Cross Product Integration (10%)</p> <ul style="list-style-type: none"> ▪ Innovate <i>Bank-to-customer process</i> (100%) ▪ Innovation stays at <i>Fintech</i> (100%) ▪ Bank aims at <i>Technology</i> (100%) ▪ Fintech offers <i>Cross product service</i> (100%) <p><i>Cross product services to innovate bank-to-customer processes in bank ecosystems</i></p> | <p>6 The Early Bird (10%)</p> <ul style="list-style-type: none"> ▪ Focus on <i>Alliance</i> (100%) ▪ Innovation stays at <i>Fintech</i> (100%) ▪ Invest in innovation <i>Introduction</i> (92%) ▪ Ecosystem <i>Restricted by fintech</i> (85%) <p><i>Early-stage cooperation to access technology</i></p> |

Our final taxonomy and the taxonomy development process contribute to theory and practice

Research process

Which design parameters of cooperation between banks and fintechs can be distinguished?

- Development of a **taxonomy** for the cooperation between banks and fintechs
- Application of a **cluster analysis** and identification of **prevailing cooperation patterns**

Theoretical contribution

- First relevant, valid, useful and effective **dimensions and characteristics** to structure field
- **Descriptive theory** depicting an important step towards a deeper understanding of the field
- Basis for the development of a **higher-order theory** (e.g. predictive theory)
- Guideline for **other industries, where similar phenomena** are likely to have similar impacts

Practical implications

- The identified cases indicate that **cooperation is an eligible strategy** to foster innovation
- Our taxonomy allows practitioners to **categorize and analyze their cooperation** endeavors
- Our cluster analysis enables practitioners to gain insights on **common cooperation practices**
- Our findings indicate, **fintechs are far from being weak partners** within the cooperations

Our taxonomy development process has limitations and serves as foundation for future research

Limitations

- 1 The **applied dataset and the sequence of iterations** in the taxonomy development process influences the resulting taxonomy
- 2 Our taxonomy focuses on categorizing the phenomenon of bank-fintech cooperations but has **no specific focus on the dependencies of categories**
- 3 We integrated twelve interviews with industry experts, however the **majority of cases were examined based on publicly available information**
- 4 We developed an artifact, which is attributed to the “theory to analyze” and represents **a first step** in theory development
- 5 Our taxonomy has a specific **focus on the banking industry**, thus cannot simply applied to other industries that indicate analogous developments

Future research

- Applying **a divergent sequence of iterations and different cooperation cases** in the taxonomy development process allows to further verify and establish the artifact in the domain
- The classification of objects requires **further in-depth analysis** for the identification of determining factors and category interdependencies
- A detailed **case study research**, focusing on particular cooperation patterns, would reveal more insights about the intentions, contributions and strategic objectives of the involved parties
- It seems promising to **develop a predictive theory** that allows to better evaluate and manage bank-fintech cooperation approaches
- Further research might built upon our findings to examine similar phenomena **in other industries**, such as the digital transformation in the automotive sector

Thank you very much for your attention.
I look forward to your questions and comments.

Literature

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Backup

12 Interviewees across with different levels of experience, varying firm positions and sectors dedicated their time toward the study

| ID# | Respondent's Position | Relatedness to Bank-Fintech interaction | Firm size* | Firm Sector |
|-----|------------------------|---|------------|----------------------|
| 1 | Middle management | Currently involved in bank-Fintech cooperation | Medium | Fintech |
| 2 | Executive- / C-Level | Currently involved in strategic alignment to bank-Fintech cooperation | Large | Banking |
| 3 | Senior Project Manager | Formerly involved in structuring of bank-Fintech cooperation project (Bank perspective) | Large | Consultancy |
| 4 | Referent | Currently involved in regulatory requirements and matters of bank-Fintech cooperation | Large | Regulatory authority |
| 5 | Executive- / C-Level | Formerly M&A in the banking sector; formerly C-Level central bank | Large | Banking |
| 6 | Executive- / C-Level | Currently involved in bank-Fintech cooperation and incubation | Large | Banking |
| 7 | Middle management | Currently involved in bank-Fintech cooperation and incubation | Large | Banking |
| 8 | Middle management | Currently involved in bank-Fintech cooperation and incubation | Large | Banking |
| 9 | Middle management | Currently involved in bank-Fintech cooperation and incubation | Large | Banking |
| 10 | Middle management | Currently involved in bank-Fintech cooperation and incubation | Small | Fintech |
| 11 | Middle management | Currently involved in bank-Fintech cooperation and incubation | Small | Fintech |
| 12 | Middle management | Currently involved in bank-Fintech cooperation and incubation | Medium | Fintech |

*) Firm size from the EU recommendation 2003/361

Description of the dimension

Cooperation type

➤ **Dimension: *Cooperation type***
Which type of cooperation is chosen?

➤ **Characteristic: *Acquisition***
The bank undertakes a corporate action and buys the majority of the Fintech and integrates it into the existing structures

➤ **Characteristic: *Alliance***
Bank and Fintech enter into an contractual arrangement to share resources and knowledge to achieve common goals

➤ **Characteristic: *Incubation***
The Bank fosters the Fintech through financial, managerial, or other assistance without deciding or owning the Fintech

➤ **Characteristic: *Joint Venture***
Bank and Fintech pool resources in a specifically independent but common entity, whereas risks and responsibilities are carried by both participants

Description of the dimension

Innovation type

> Dimension: *Innovation type*
What kind of innovation is involved?

> Characteristic: *Product*
The core of the cooperation is a product innovation, that is the introduction of a good or service which is new or significantly improved regarding its characteristics or intended uses.

> Characteristic: *Process*
The core of the cooperation is a process innovation, that is the implementation of a new or significantly improved production or delivery method.

Description of the dimension

Maturity of Innovation

➤ **Dimension: *Maturity of Innovation***
In which lifecycle stage is the product / process?

➤ **Characteristic: *Introduction / Uncoordinated***
The product is introduced into a potential market / The process follows an uncoordinated approach and is easily able to respond to environmental changes

➤ **Characteristic: *Growth / Segmental***
The product's sales, market shares and profitability are growing / The process is characterized through a higher degree of integration and automation

➤ **Characteristic: *Maturity / Systemic***
The product's sales and market shares stabilize or decline / The process is described as highly developed and integrated with resistance to change

Description of the dimension

Holder of innovation

➤ **Dimension: *Holder of innovation***
Where the innovation is located in the cooperation?

➤ **Characteristic: *Fintech***
In the cooperation, the innovation (knowledge about the innovation) remains with the Fintech.

➤ **Characteristic: *Bank***
In the cooperation, the innovation is fully integrated into the bank.

Description of the dimension

Type of bank

➤ **Dimension: *Type of bank***
What type of bank is involved?

➤ **Characteristic: *Commercial bank***
The commercial banks are privately owned and act more profit oriented than cooperative and saving banks.

➤ **Characteristic: *Cooperative bank***
The cooperative banks indicate characteristics of commercial banks, however the internal structure differs significantly, as the bank is owned by its members.

➤ **Characteristic: *Saving bank***
The saving banks are characterized through a specific business focus on savings and savings mobilization as well as a focus on local markets.

Description of the dimension

Bank's main distribution channel

> Dimension: *Bank's main distribution channel*
What is the bank's main distribution channel?

> Characteristic: *Branches*
The bank's access to customers is mainly facilitated through a branch system

> Characteristic: *Online*
The bank's access to customers is mainly facilitated through online channels

Description of the dimension

Strategic objective of bank


➤ **Dimension: *Strategic objective of bank***
What strategy does the bank follow?


➤ **Characteristic: *Market access***
The bank mainly pursues access to new markets and opportunities (Environmental changes, internationalization and globalization, new products, markets, branding)


➤ **Characteristic: *Technology access***
The bank mainly pursues access to technology vi the cooperation (Tacit knowledge of technology, technology transfer, technology application, technological leapfrogging)

Description of the dimension

Role of bank

 **Dimension: *Role of bank***
What asset contributes the bank to the cooperation

 **Characteristic: *Service provider***
The bank acts as a service provider for the Fintech (Account management, holding of Bank license)

 **Characteristic: *Service consumer***
The bank acts as a service consumer and demands services from the Fintech

Description of the dimension

Category of Fintech (1/2)

➤ **Dimension: *Category of Fintech***
What kind of Fintech is involved?

➤ **Characteristic: *API / Infrastructure***
Fintechs providing APIs or infrastructure to companies and customers that use the Fintech's solution as basis for their products and services.


➤ **Characteristic: *Cross product service***
Fintechs providing innovative solutions that improve processes alongside several products and services.

➤ **Characteristic: *Current account***
Fintechs providing innovative account management solutions.

Description of the dimension

Category of Fintech (2/2)

 Dimension: *Category of Fintech*
What kind of Fintech is involved?

 Characteristic: *Lending*
Fintechs providing innovative lending solutions.

 Characteristic: *Payment*
Fintechs providing innovative payment solutions.

 Characteristic: *Investing*
Fintechs providing innovative investment solutions.

 Characteristic: *Insurance*
Fintechs providing innovative insurance solutions.

Description of the dimension

Maturity of Fintech

> Dimension: *Maturity of Fintech*
In which lifecycle stage is the Fintech?

> Characteristic: *Start-up*
The Fintech is focusing on the development of a business plan and the entrance into the market

> Characteristic: *Emerging growth*
The Fintech is focusing on expansion efforts

> Characteristic: *Mature stage*
The Fintech is in a stage of slow growth rates

Description of the dimension

Fintech holding full banking license

> Dimension: *Fintech holding full banking license*
Does the Fintech hold a bank license

> Characteristic: *Yes*
The Fintech holds a banking license and is liable to financial and banking regulation

> Characteristic: *No*
The Fintech does not hold a banking license and cannot supply banking products