OCT 30

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‘I’m more innovative. No, I’m more innovative. So there!’

Article

Money20/20 Session: “Banks vs. Fintechs: Who Is Most Innovative?”

Speakers:

Zoya Lieberman, CEO & founder, The Lieberman Group (Moderator, Team Bank)

Ken Kruszka, CEO, Snapcheck (Team Bank)

Stacy Bjornstad, chief revenue officer, DigiPli (Team Fintech)

Greg Lloyd, VP strategy, Levvel (Team Fintech)

Topic: In a modified Oxford-style debate, two teams faced off on this question: “Are banks, given the right tools, more innovative than fintechs?”

A pre-debate poll showed that 78% of the audience favored fintechs and 22% favored banks.

Banks are more innovative.

- Banks are the operational and regulatory backbone upon which fintechs rest. Bank innovation begets fintech innovation—fintechs simply repackage and reskin what banks already have. True and meaningful innovation is a lasting, impactful transformation—not cosmetic, shallow, and short-lived.
- Banks are the only entities with a seat at the table to drive real, substantive change in financial services. They’ve helped create the Federal Reserve Act, the Electronic Funds Transfer Act, Regulation J, and other regulations.
- Banks originated the first commercially viable payments cards: Diner’s Club, Bank Americard, and Interbank.
- Banks are houses of trust, held to the highest standards. In the banking world, to move fast and break things is unacceptable. It’s unacceptable to lose people’s money, betray their trust and confidence, or lock them out of their money. Maintaining high standards requires innovation.
- Fintechs have permission to fail and try again. Banks, not so much. Being responsible isn’t necessarily sexy. But hype doesn’t equate with innovation. Look beyond hype, and set aside preconceptions when assessing innovation.

Fintechs are more innovative.

- Banks *were* more innovative, but that doesn’t mean that they still are. They face too many political, cultural, and technological challenges. They’re trapped by legacy: “Oh, it’s gonna impact this or that product, we can’t do that.” Fintechs are untrammeled and go after solving customers’ pain points with a singular purpose.
- Just because banks help fintechs innovate doesn’t mean they are innovative themselves. Any recent innovation from banks has been begrudging, driven by fintechs pushing them from behind.

- Fintechs are successful not because they break things but because they challenge everything—and that's what drives innovation.
- Western Union, a nonbank, launched the first electronic payment service long before the Fed, rolled out the first charge card, and had success with the underbanked. Not all fintechs are shallow, short-lived, or cosmetic: A more recent example is PayPal's launch of the first digital wallet.
- Open banking in the US has been slow in achieving traction compared with Europe, where regulation forced resistant banks to open up and enabled innovation.

Banks are more innovative.

- If fintechs are so powerful, why are so many trying to get a bank charter? Fintechs haven't changed the fundamental concept of banking—they're just speeding it up.
- The term "bank" retains its power, whether used for the term "neobanks" or in branding the new neo-credit-union Bank Dora. Consumers have deeper trust in banks and banking.
- Breaking things and introducing new products is overrated compared with how banks balance supporting legacy systems, being secure, and innovating. If multitasking isn't being innovative, what is?
- Banks aren't focused on instant gratification. They work on the concept of *kaizen*, making incremental changes for the better. This slow and steady innovation isn't always pretty; it's not resonant with everyone—but it gets the job done.
- All demographics are migrating back to banks. When millennials who use Venmo and PayPal need financial advice, they go to their parents' bank.

Fintechs are more innovative.

- Every fintech *doesn't* want to be a bank. Even banks don't want to be banks. The regulatory, liquidity, and capital requirements are too time consuming and costly.
- Customers are voting with their keystrokes on fintechs' trustworthiness—there's been a mass migration to fintechs. As fintechs build brand recognition and visibility, they will earn trust.
- Invention creates something that hasn't existed before; innovation improves it. The telephone was an invention; the smartphone was an innovation. Like Apple, fintechs disrupt by rethinking and repositioning a product to provide better, faster, and cheaper service and more personalization.

- Fintechs meet customers where they are. They're on top of contemporary culture and the needs of the gig economy, creating relevant services and apps, and they're hitting ecommerce hard. Banks are lagging.
- The digital asset space has exploded—but banks are tiptoeing into it, pushed by customer demand and forced to play catchup after getting FOMO.

The winner: A second poll at the end of the debate found the audience still favored fintechs, but their lead decreased by 8 percentage points, and 30% of the audience now favored banks.

Our take: This debate illustrates why Insider Intelligence produces both a Fintech Briefing and a Banking Briefing. (Not to mention a Payments & Commerce Briefing.)