Banks acknowledge the benefits fintechs provide, despite the increased competition they also bring

Article





The key stat: Seventy-seven percent of banks are feeling pressured to partner with a fintech provider, even though almost the same percentage (74%) believe that fintechs are a threat to their existence.

That's according to banking software fintech Sopra Banking Software and Forrester's <u>2023</u> <u>Digital Banking Experience Report</u>. The report findings come from a survey of 792 bank leaders in 50 countries, as well as a second survey of 12,500 bank customers in 14 countries.

Under pressure: Banks are feeling this pressure for several reasons, primarily driven by customer demands.

- 76% of banks said they believe they need to partner with fintechs to meet ever-evolving customer demands that they wouldn't otherwise be able to meet on their own.
- Though 92% of banking customer respondents said they have an account at a traditional bank, 46% of bank customers also have an account with a digital-only bank.
- Consumers also don't necessarily believe their financial lives need to exist at banks. Forty-six percent said they'd be willing to bank with big tech companies like Amazon or Apple, and 37% said they'd be willing to bank with social media platforms like TikTok.
- Additionally, 66% of banks said they feel a need to work with fintechs due to new regulations.

Leading Providers US Digital Banking Users Would Trust Most to Provide Them with Banking Services, 2021 & 2022

% of respondents

	2022	2021
PayPal	42.2%	40.7%
Current primary bank** or credit union	41.9%	48.0%
Visa	32.8%	31.7%
Mastercard	20.3%	20.6%
Apple	19.2%	13.0%
Amazon	19.1%	23.3%
American Express	12.9%	16.0%
Venmo*	12.3%	-
Discover	12.0%	11.8%
Another traditional bank or credit union	9.9%	9.9%
Walmart*	7.0%	-
Microsoft	5.1%	6.0%
Another "digital-only" bank	3.1%	5.1%
Alphabet (Google)	2.9%	13.5%
Meta (Facebook)	2.2%	3.3%
TikTok*	1.5%	-
Klarna*	1.3%	-
Other	0.7%	0.8%
Uber	-	0.7%
Lyft	-	0.6%

Note: *newly added in 2022; **primary bank could include either a traditional bank or a digital-only bank

Source: Insider Intelligence, "US Banking Digital Trust Benchmark 2022," Aug 2022

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Benefits, but changes too: Though banks feel they might possibly be edged out by fintechs, they recognize that there are benefits from formulating partnerships with them.

- When asked why banks are considering fintech partnerships, 78% cited revenue growth, 77% said improved product time to market, 77% listed increased customer loyalty, and 76% said better customer service.
- 65% of banks said they'd prefer to partner with a fintech to aid in their digital transformation rather than build it out themselves. Forty-nine percent of banks said they don't believe they have the infrastructure to make a successful digital transformation on their own

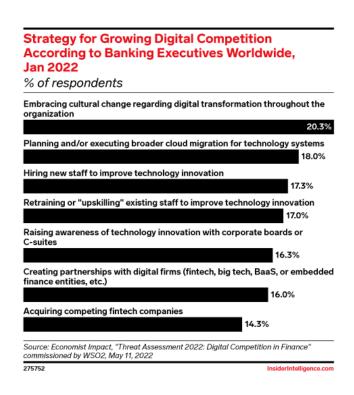
Banks are also recognizing that to co-exist with fintechs and avoid obsolescence, they may need to change their business model.

- 52% of banks already provide their services to third parties as part of a banking as a service (BaaS) offering as an additional source of revenue
- 74% believe that BaaS will become the primary business model for traditional banks moving forward.



Our take: The survey findings reveal that banks are coming to terms with fintechs encroaching on their territory, and that they're adapting to remain relevant. While some banks still feel threatened by these new fintech entrants, a few points should help put them at ease.

- Regulators approve of the partnerships: The US Treasury <u>published a report</u> late last year highlighting the good that fintechs bring to the financial industry, including diversity and competition. The report also advocated for partnerships between banks and fintechs to benefit consumers.
- Fintechs aren't regulated: Because of this, fintechs can't provide many banking services without the assistance of a bank itself. And when a fintech oversteps its bounds, regulators will step in. Banks must be aware, however, that bank-fintech partnerships are prone to risks, such as money laundering, data security issues, and accountability conflicts.
- BaaS won't eliminate traditional banking: Banks offer a wider variety of services and experiences than most fintechs—and all in one place. Though BaaS will provide a valuable revenue stream to many banks in the future, it won't completely replace the need for traditional banks.



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