An Issue With Many Tentacles

by Steve Brown

When it comes to the underwater world of the octopus, everyone knows they have 8 arms, some know they are called octopuses and not octopi, they can change the color of their entire body in just three tenths of a second, and scientists have even seen them open childproof pill bottles. The octopus is an interesting sea critter to be sure.

We bring this up today because while octopuses have 8 arms, humans do not. Perhaps this is also genetic proof we are not built to multitask or maybe it is the fundamental problem bankers are having keeping track of the sheer volume of financial technology (fintech) companies popping up all over the place.

Bankers need to understand the fintech space because some of these firms are highly competitive. In fact, according to the findings of a recent survey from PwC, 95% of banks are afraid they will lose some portion of their business to standalone fintechs.

These fears are not without merit, as the same study found fintech companies expect to acquire 33% of the business of banks and other traditional financial institutions in the coming years. This makes sense when you consider fintech companies are aggressively working to make that happen.

Given this reality, community banks cannot afford to ignore the ways that fintechs are reshaping the world of banking. After all, there are about as many fintech companies targeting loans, payments and all things in between that are banking as there are banks in the US - about 6,000 each.

This means community banks with limited resources will have to be strategic in how you respond and where you expend resources to explore potential opportunity.

Ironically, one of the best ways analysts will say you can keep from losing business to fintechs is by partnering with them. This can make sense, but community banks are also hamstrung by the very core systems that support daily operations. As the saying goes, if you touch a customer you eventually touch the core. So, while it sounds great to just "plug in" the latest and greatest financial wallet, biometrics or other nifty fintech tool it is easier said than done. It can also be quite expensive, as many banks find out when they contact their core provider and talk to them directly about plugging something in.

As if the technical know-how and costs weren't plenty to deal with, consider the regulatory piece as well. Cyberthreats rank at the top of the concern list of every regulator these days and the ink on this can stick to such things as security, vendor management, complexity of offerings, services and visibility.

Even more specifically related to fintech, as banks explore partnerships, it is important to know you must adhere to all banking rules and regulations in doing so. Evaluating such risks as credit, fair lending, and unfair/deceptive acts or practices are some common ones. These also include making credit decisions using nontraditional data sources and making sure doing so does not lead to disparate treatment or have disparate impact.

There is no doubt that playing in fintech can be tough for community bankers. Limited resources, countless rules and regulations, reputational and other risks, limited tech staff, and a limited dollar amount available evaluate such things all come into play like an eight armed monster from the deep.

Even if your bank isn't yet ready to completely embrace partnerships with fintechs, at least taking steps to adopt and refine your customer-centric business approach is critical. The more customers embrace digital and mobile channels, the more banks must react and restructure to respond. As with the octopus, over the next few years bankers can expect to keep changing their body/business color frequently and quickly in response to the threat of potential attack.

BANK NEWS

Leaving Workforce

Research by the EBRI on retirement finds 46% of retirees leave the workforce earlier than planned. Primary reasons for leaving are: hardships, health problems or disability (55%); being able to afford earlier retirement (33%); wanting to do something else (25%); changes at the company (24%); other work-related reasons (21%); having to having to care for a spouse or another family member (17%); and changes in the skills required for their job (12%).

Cyber Risk

The FBI is warning cyber criminals outside their reach are increasing attacks on companies and consumers. They warn companies must keep up with security updates, use anti malware software and be on the lookout as ransomware surges.

Industry Opportunities

A study by Computer Services Inc finds bankers say the following are their biggest opportunities this year: driving interest income or loan growth (31%); implementing new technology (23%); differentiating through customer service (20%); pursuing mergers and acquisitions (4%); enhancing mobile or omnichannel banking (3%); other (4%).

CFO M&A

A survey of global CFOs by Deloitte finds 63% say they expect to pursue M&A deals this year. About 54% said they would seek to expand in existing markets and 51% want to diversify into new markets.