Customer Loyalty And Regulatory Support

risk management   digital banking   strategic planning

Summary: The FDIC is establishing an office of innovation that would help banks better partner with fintech firms. We provide you with the early details and how it could affect the current fintech landscape.

Customers are a fickle bunch these days. To find out more, we looked at research by Bain & Company. It analyzed the relative impact of various elements on customer loyalty and how much each one contributed to predicting whether the customer would be a loyal promoter of a given vendor. Elements that ranked highest were: product quality (7.8%); expertise (6.1%); responsiveness (5.5%); hope (4.5%); and integration (3.9%).

As your bank focuses on enhancing customer loyalty, you might drift into the world of innovation as well. Last week, we reported in the BID, Active Fintech Assistance, that the ABA and ICBA are working to help bridge community banks with fintech innovations. The good news for community banks keeps coming, as the FDIC has stepped in to help as well.

The FDIC is establishing an office of innovation that, among other things, would help banks better partner with fintech firms to improve products and services. Chair McWilliams notes that it is important for the FDIC to "avoid getting in the way of beneficial innovations and technologies that will help our regulated entities stay competitive."

Since this new office is still in the early stages, nothing has been set yet. But, with greater regulatory support to partner with fintechs, community banks that shied away from these hotbeds of innovation may be more open to exploring this world.

This is good because most fintechs would rather partner with banks than compete with them, according to the World FinTech Report 2018 by Capgemini and LinkedIn. They found that customers trust banks more than fintechs, so they cannot innovate in a vacuum. In addition, the report finds many fintechs realize that while they have the advantage of speed and customization, scalability and solid business models are often still lacking. Even with nearly $110B raised by fintechs over the past 10Ys, the report found that most will not succeed, if they do not create a valuable partnership network.

The most common way fintechs work with community banks is by providing them with white-labeled solutions or in-house solutions hosted by software as a service (SaaS) platforms, the report states. In the future, community banks will most likely increasingly adopt the technologies offered by fintechs via open application programming interfaces (APIs).

But for such partnerships to work, community banks and fintechs need to first find ways to minimize culture clashes between the organizations. Perhaps most important is coming to terms with how both organizations manage risk.

As such, community banks may need to assess and manage risk a bit differently with fintechs. This is where the FDIC's innovation office could come in handy. It promises to help banks through the compliance process for vendors, so that these partnerships can truly be successful.

Although there has been great regulatory concern in the past that has led to increased reticence from community banks, some seem to be getting more interested, given such changes.

Let's hope regulatory clarity is provided consistently, so that community banks can boost customer loyalty using more innovation elements both now and into the future.

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