Rene M. Stulz (Stulz, 2019) in his research provides examples of the effective functioning of FinTech and BigTech, including what concerns the implementation of certain types of banking services. BigTech firms have the customer base to operate a platform bank. A platform bank would not be competing with banks in a specific activity, but would be competing with banks across all customer-oriented activities, from deposits to payments and wealth management. In their current activities, FinTech firms typically rely on banks for many of their services. They put cash in bank accounts, have bank lines of credit, use banks for payments, and so on. A BigTech firm with a platform bank does not have to rely on existing banks. It could have its own affiliated bank through which it could have deposit accounts, provide customers with credit cards, and provide them with e-cash. It could also make available to its customers a great variety of financial services from third parties. It could help them make choices among these services. BigTech firms have potentially big advantages compared to banks and to FinTech firms. They have all the technical knowhow and up-to-date systems that FinTech aspires to. They have the scale that large banks have. They have access to data that banks and FinTech firms do not. They have neither the legacy nor the organizational issues that banks have. BigTech firms have unique advantages that allow them to replace traditional banks. At the same time, however, the strength of BigTech in banking is in consumer finance and lending to SMEs. It is not in investment banking.

According to Swiss Finance Counsil, while big techs’ payment platforms compete with those of banks, they still largely depend on the banking network and require collaboration with banks. Partnerships between big techs and big banks will potentially increase. Firstly, within banks: typically, big techs act as a service provider to incumbent financial institutions by providing them with technological infrastructures such as cloud computing for data storage and processing. Secondly, funding: big tech firms fund themselves from financial markets and financial institutions like banks. Finally, externally, where banks offering connections with other non-banking firms in addition to their own are gaining momentum. In this new business model, banks, pushed by declining margins on banking products and low profitability, refocus on distribution and seek partnership. By partnering with licensed banks, big techs can offer financial services to their customers without having to accept deposits and become subject to strict banking regulation. The most well-known example of such a collaborative platform is to be found in payments with the widespread adoption of APIs. But other forms of partnerships between global banking and big techs are
emerging in, for instance, banks’ loans to technology firms’ customers such as small and medium-sized companies (SMEs).

Researchers (Meichenitsch and others, 2020) apply the concept of "prisoner's dilemma" when studying the areas of cooperation between banks and bigtechs on an open banking platform, in which banks and bigtechs are hesitant to fully open themselves towards open banking due to the investment this entails. Therefore it can be said that the open banking market is currently in the bottom-right quadrant, where third parties fill in the space left by their larger counterparts. An important takeaway from the open banking prisoner’s dilemma is that it is clear that the players who do not react on time will be left behind as their current temporary advantageous positions gradually degrade relative to the other players, whether these are other banks, bigtechs, or up-and-coming third parties. Further, it highlights that instead of competing head-on against the big techs, it might be a good idea to think about partnerships and cooperation. As bigtechs are already investing into banking use cases, banks basically have to follow. If they cannot partner on equal terms with bigtechs, they can build on partnerships with up-and-coming players who offer technological affinity as strength.

Fintechs continue to develop new initiatives to disrupt the banking industry by leveraging open banking potential. In Asia big techs like Alibaba and Tencent are driving competition by creating super apps which have transformed how people interact with financial services. These tech giants are driving innovation through challenger banks such as MYbank and Webank providing digital financial services much to the chagrin of the incumbents. These super apps are connected with more than 200 institutions, including over 100 banks, 60 insurers, and 40 wealth management companies and security brokerages. The new value propositions and possibilities that could be derived from such a powerful network in an open banking era are just unfathomable. Open banking will help set up a robust data sharing infrastructure upon which a broad range of products and services can be anchored. This infrastructure built on blockchain technology will provide a transparent, secure, and reliable source for data that can be used by such super apps to develop new financial products and services (Kinoti, 2020). However, we do not expect banks and fintechs to sit idly by and watch their bottom line suffer. Rather, we are likely to witness more consolidation across the financial services sector as institutions fight to survive and thrive. There will be horizontal mergers between banks to leverage their economies of scale from big data and network effects. We are also going to witness vertical mergers between banks, other FSIs, fintechs, and cross-industry firms to create synergies and to leverage their unique but separate strengths.

References: