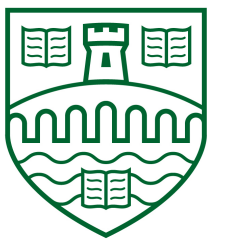


FinTech in financial services

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How traditional banks have embraced the digital age?

Digital banking channels have become increasingly popular. Pickford (2018) found that 70% of people in the UK use online banking. This demonstrates the need for traditional banks to invest in their digital banking, thus, both their website-based, online banking as well as mobile application-based banking which enable them to offer services 24/7. Consequently, the branch-based banking activity is rapidly declining and branch closure has become inevitable.

Overall, the banking industry is demonstrating a shift from competing on their products by offering preferential interest rates for examples, to being 'customer-focused omnichannel digital organisations.' As a result, products and services are driven by customer needs and wants.

Research by Ciciretti, Hasan, and Zazzara (2009) found a positive correlation between the internet activities that banks offer and bank performance in regards to both financial performance as well as customer satisfaction.

FinTech start-ups

The shift towards digital banking channels has encouraged innovation and attracted new entrants in the market: 'challenger' banks. Without the traditional 'brick-and-mortar' models, these banks have a competitive advantage over traditional banks of low costs. As a result, they can afford to focus their investments in their technology and customer service more than traditional banks.

The view that 'challenger' banks offer better customer service than traditional banks is also supported by Pilcher (2017) and industry research by FIS Global Performance (2019).

There is a lot of debate around whether or not the start-ups can replace traditional banks. However, a wide range of research such as Grut (2017) and inVerita (2019) hold the view that FinTechs will not be able to replace traditional banks. This can be linked to Stern, Makinen, and Qian's (2017) view that FinTechs tend to specialise in one area. Consequently, there will be a need for traditional banks to offer the other services that FinTechs do not offer.

Moreover, traditional banks are generally trusted more by customers. Their established reputation also gives them a competitive advantage. However, the fact that younger generations prefer digital banking channels, and with them being the future; there has been a strong trend towards partnerships between traditional banks and FinTechs.

Comparative perspective of the FinTech investment in China, the US & UK

	● China	● US	● UK
Rank	1	2	3
Capital Invested (\$M)	18,973	10,581	1,736

FinTech investment by country in 2018 (Innovate Finance, 2019).

China is the leading state for FinTech investment in the world. This has been linked to China's technological advancement as well as its strong economy in comparison to other countries. The US is also a top country for FinTech investment.

The UK Fintech investment had been increasing annually up until 2018 when that appeared to decline. FinTech Global (2019) postulate this is due to the uncertainties that investors are facing over Brexit.