Cooperation: Key to Change and Innovation

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Now that the world is in the heart of digital age, even consumers of financial industry who mostly have been relatively conservative are demanding for change in the conventional financial services. They are asking for a broader user experience (UX) that IT firms, such as Google and Apple, and fintech firms provide. To swim along the current tides, many global financial institutions have switched their positions to cooperate with adjacent business sectors.

Cooperation — it is not something elective

The industrial era where companies of huge scale, big organization, and unique competency gained comparative advantage has already faded. To stay ahead of the race nowadays, businesses should be good at cooperating with adequate partners to devise and create innovation. Growing number of companies are entering partnerships with various market participants including the fintech firms by promoting collaboration between adjacent areas, going into M&As and investment, and jointly running programs for digital capability.

The progress took place in the US before Korea, where its financial industry is much earlier exposed to global competition. A consulting company called Cornerstone Advisors conducted a survey to 300 managers at strong midsized financial institutions (60% banks; 40% credit unions) in the US during Q4 2018, and the result found that half of banks’ and 60% of credit unions’ executives replied affiliation or cooperation with fintech firms is either very or somewhat important for their business in the coming year.

The global accounting corporation Deloitte also expects that it is much likely financial institutions cooperate with the fintech industry rather than compete against, and 82% of the current financial service providers will strengthen partnerships with fintech firms within 3 to 5 years. With the two industries cooperating, banks will not only be able to increase profit but also present more services and variety of UX without having to take additional risk or employment; fintech firms will not only be able to soft-land on regulatory environment but also secure large customer pool and utilize wide range of existing financial services. Thus, cooperation is a win-win strategy for all market participants to jump on the future bandwagon.

Cooperation has no boundaries

It is not difficult to spot in overseas cases how active the traditional financial industry is engaging in cooperation with adjacent areas to prevent their customers from departing. JP Morgan, which invests billions of dollars every year in technology to take initiative in the high-tech field, has recently launched an online loan service to small businesses in collaboration with the fintech lender OnDeck Capital. It also established the ODX, its subsidiary whose
purpose is to offer technology and supporting services to the parent bank. JP Morgan, in addition, has released a payroll service for the small- and mid-sized firms, jointly with the online business banking specialized firm ADP.

The German online-only bank Fidorbank designed a business model that loads an API module named the “Fidor OS” on its core banking system to link together community management, omnibus account, mileage programs, and overseas remittance. Recently, it is partnering with other firms to expand its business scope, in particular the fintech company CurrencyCloud, to provide a safer overseas remittance service. Moreover, it is also successfully capturing new markets by commercializing a payment and settlement service that utilizes cryptocurrency.

The limitation of current legacy system is mostly revealed in overseas remittance. Thus, this area would be the first to examine the application of cryptocurrency. Once it is done, it is anticipated to overcome the drawbacks of existing systems such as the SWIFT, the communication agreement between international banks, which inevitably needs mediators and generates maintenance cost. Innovation and cooperation are in a way strategies to resolve the cost problem, which in result, increase accessibility for consumers.

Another example would be the innovation powerhouse Bank of America, who recently has joined hands with the online invoicing firm ViewPost to provide an online invoicing and settlement system that emails trade invoices. This streamlined a series of procedures ranging from settlement, issuance of invoice, and cash management. Currently, its affiliation Bank of America Merrill Lynch has also collaborated with Amazon Lending to launch a loan service to small- and midsized firms.

Other examples of innovation based on cooperation include the cases in the UK, where the fintech company Revolut and several banks jointly presented a real-time currency exchange and remittance service, and also where ING and Scotiabank worked together with the fintech firm Kabbage to offer an online lending service to small-sized firms.

**Tasks ahead**

The unprecedented stride by the innovative financial institutions gives us instinct for what it would be like in the next chapter of the current tide. If we remain passive and be satisfied with the safety of following the back of others, water should constantly leak from the existing customer pool. The best way of defense is rather an offensive penetration into users through breaking down the borders of seemingly different areas. It would be harder and harder to keep up with the protean preference and demand of consumers if we remain hostile towards the opponents. Only by coating a digital layer on the banking system through integration of Big Data and AI, new business opportunities will pop up in the super-connected environment. To keep the customers from moving out, ironically, we should be more open. And to do so, we should be more cooperative.
It is difficult to find in our history a moment akin recent times. From the very basic of collecting and analyzing data to the very challenge of stepping into a new field where industries mingle together, these are something that could not be done at an instance but takes some while to build consensus and trust among market participants. It is because this structure of value creation is all about connectivity.

Most importantly, since the financial industry is subject to regulatory framework, new financial services must go through precise examination to ensure they do not breach consumer protection before being rolled out in the market. Industries would have to carefully evaluate the various risks ensued by crossing the boundaries from a multifaceted perspective to earn market trust and develop competency. The future environment will not allow a specific authority or a certain entity to take omniscient control. So the only way to gain consumer trust in the ever-complicated market is to be able to show ourselves that we deserve to be trustworthy. And that will be the ultimate foundation to pervade innovation into consumers’ daily lives. Along with the trust foundation between consumers and industries, that between business partners is also of huge significance to promote successful cooperation, needless to mention cost reduction.