

Fintech Rising: Creating Synergy in Financial Services

Why Fintech Companies and Financial Institutions Need Each Other to Survive and Thrive.

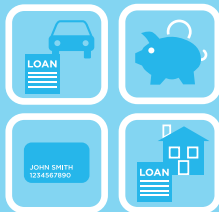


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Introduction

As digital technologies and mobile apps engage more customers in the areas of finance, banking, and payments, investment, and interest in the fintech industry has continued to grow significantly. Many business analysts have painted dire pictures of fintech startups gobbling up bank customers and warned that banks will soon become obsolete if they don't quickly adapt to the digital trends.

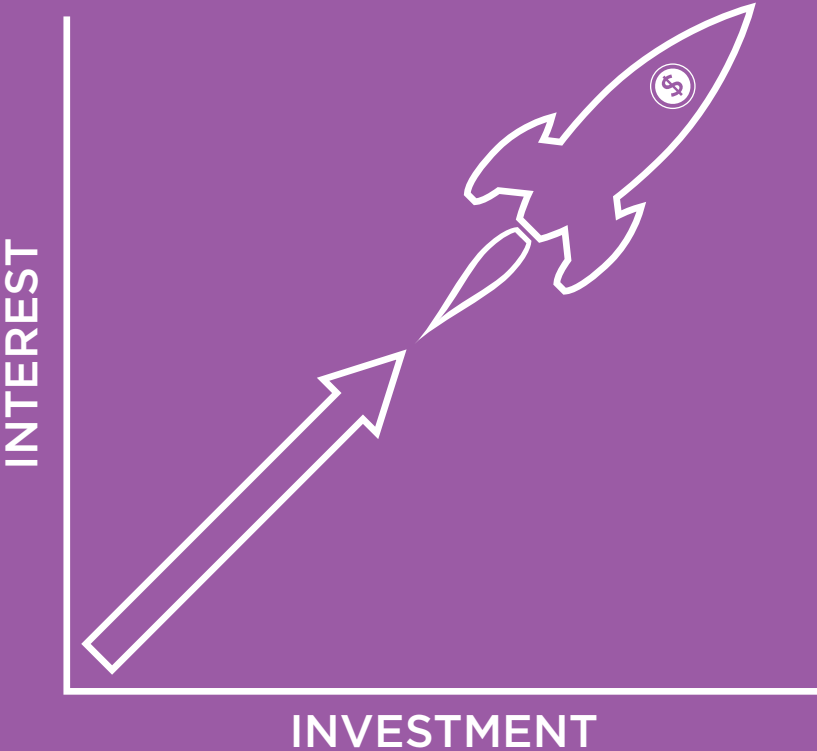
While financial institutions seem to be positioned on one side of the digital divide, and fintech startups on the other, a more profitable alliance can be found through the mutual benefit of collaboration.

“Fintech is a new market. It is 21st century finance. **It is the new form of banking, and is related but very different to the old form.** Some of the old form players will metamorphose into these new digital fintech players. Some, not all. Some of the new players will take over the markets of the old incumbents. Some, not all.”¹

Chris Skinner, author of Digital Bank and CEO of Balatro Ltd.

¹ Skinner, Chris. “What Is ‘FinTech’?” *The Financial Services Club’s Blog* 15 Jan. 2015. Web. 18 May 2015.

Fintech Rising



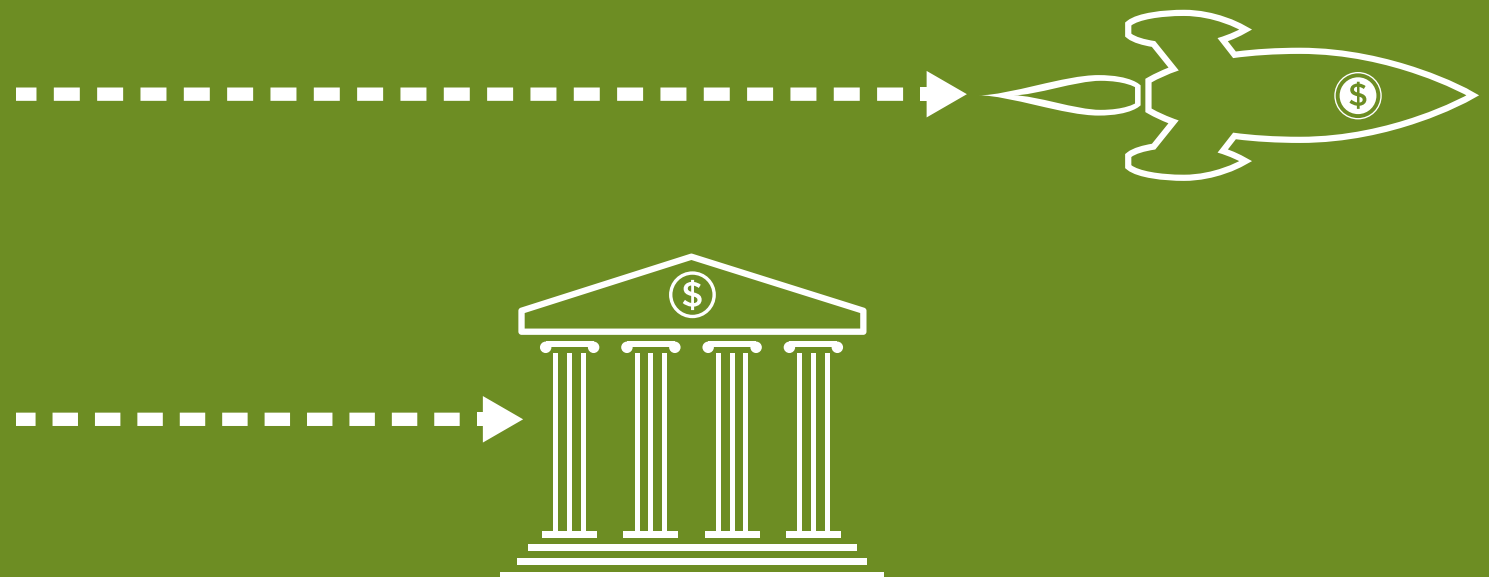
The digital revolution is well underway, and the financial services industry is entering the next stage of technological evolution. Veteran industry consultant Collin Canright calls this transition “Fintech Rising” to emphasize the growing global traction and innovation in financial services technology, and the accelerated transition from initial electronic financial technology systems to decentralized digital and distributed network-based processes.

With fintech rising, opportunity is knocking for both financial institutions and fintech startups alike.

Venture capital firms paid increasing attention to fintech in 2014, with investment in fintech rising from \$520 million in 2010 to about \$3 billion in 2014, with over 60 percent of this past year’s investment coming from the United States.²

² Canright, Collin. “FinCom.” *FinTech Rising: EBook*. 19 Mar. 2015. Web. 18 May 2015.

Fintech Startups Take the Lead



Again and again, hot digital startups are thought of as the leaders of the fintech revolution. Large financial institutions and the established financial system are often dismissed as being too slow to innovate and execute.

Digital companies have the speed and agility, and they tend to be more aware of what customers are looking for. These qualities, plus their ability to attract top talent, have given them the edge on the market.

The National Digital Research Center in Dublin, Ireland defines fintech as innovation in financial services. **fintech companies often use technology to disrupt incumbent financial systems.**³

³ Neuman, Julia. "What Is FinTech?" *The FinTech Journal*. 10 Apr. 2015. Web. 18 May 2015.

The Financial Institution Burden



The playing field is hardly level with financial institutions being hammered by regulations from all sides. In addition to facing standard industry regulations, financial institutions are often told what kind of technology they can use and how they should evaluate it. Meanwhile, their non-bank competitors are free to innovate without agonizing over compliance and regulatory matters.

“Bankers, for their part, have expressed more than a little resentment over the regulatory burden they face that their non-bank competitors can ignore, blissfully developing products for consumers without the need to spend the time on compliance and regulatory concerns.”⁴

⁴ Canright, Collin. “FinCom.” *FinTech Rising: EBook*. 19 Mar. 2015. Web. 18 May 2015.

Financial Institution Advantages



Despite all the regulations, financial institutions have a number of natural advantages. First of all, they have the experience. They're staffed with teams that understand regulation and how to work with regulators. Financial institutions also have expertise in running low-margin services at scale. They're highly proficient at expanding into new markets and operating globally. Importantly, financial institutions emphasize security and operate highly secure networks, and they still appear to have consumer trust despite the shots taken during the financial crisis.

“Existing banks will know they are winning in digital when **bank valuations start to factor in the future value of proven innovation**, in addition to protecting the core franchise.”⁵

⁵ Skan, Julian, James Dickerson, and Samad Masood. “The Future of FinTech and Banking: Digitally Disrupted or Reimagined?” Web. 18 May 2015.

Wealth of Customer Data



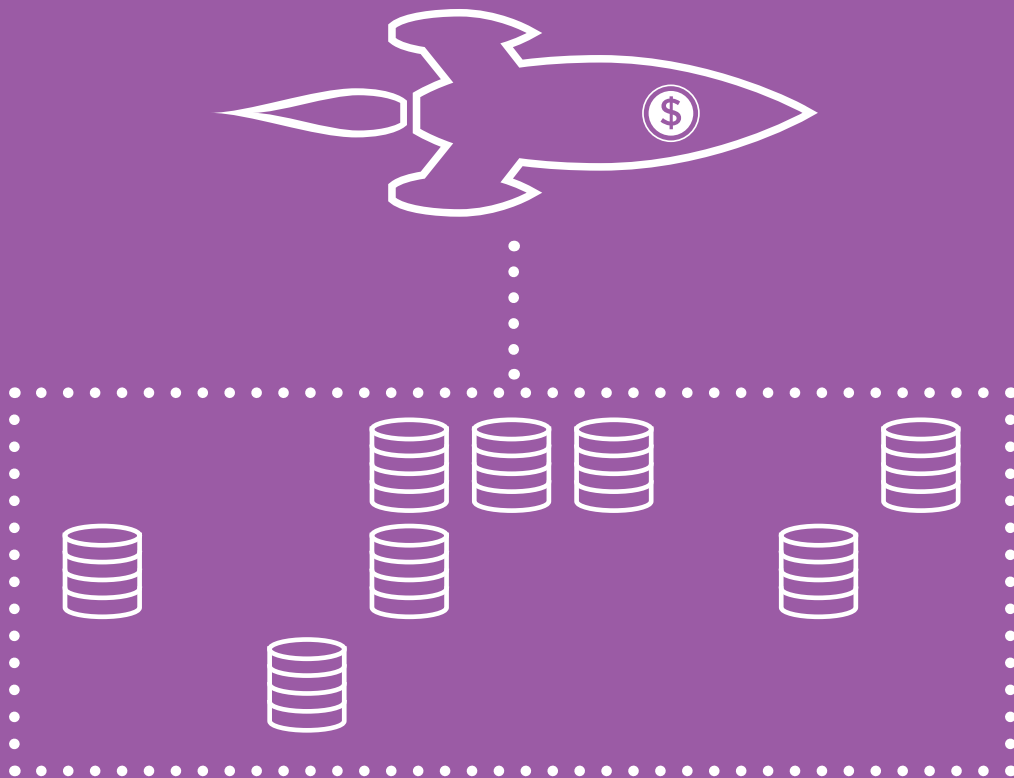
Financial institutions have access to a goldmine of customer data. By analyzing and acting on their data, financial institutions can get a better understanding of what types of services and products their customers really need and want. And with an existing customer-base, financial institutions have a ready-made audience for their apps, which can drive loyalty as they reach out with digital solutions that serve customer needs.

“...The digital bank does not think about devices, but about the capability to have the Internet embedded in everything. Walls, windows, chairs, ceilings, headscarves, handbags, jumpers, jam jars. You name it, you can digitally interact with anything today. That’s where the thinking really opens up the mind to the possibilities.”⁶

Chris Skinner, author of Digital Bank and CEO of Balatro Ltd.

⁶ Skinner, Chris. “What Is ‘FinTech?’” *The Financial Services Club’s Blog* 15 Jan. 2015. Web. 18 May 2015.

Have Talent. Need Data.



While fintech startups seem to have everything going for them, many have come to realize that their lack of data is a huge impediment to building intelligent apps. Startups may have the venture capital funding, the talent, and the cool software, but they need the financial data sets to get to move forward — and these can take years to build.

“While digital companies can innovate quickly and create better customer experiences, these same **companies lack the financial institution’s data expertise and broad-based knowledge** of complex global financial markets, regulation, and high-security networks.”⁷

⁷ “FinTech Rising: How to Create Synergies with Financial Institutions (webinar).” VentureBeat. 30 Apr. 2015. Web. 18 May 2015.

Collaboration is the Answer



While technology companies are still depicted as the leaders of the digital revolution, and warnings persist that financial institutions may be disintermediated if they don't keep up with digital trends, the landscape is actually starting to shift. Forward thinking fintech firms and financial institutions are beginning to realize that they need each other to succeed.

In a recent report by Accenture, 80 percent of financial institutions surveyed said they saw the value of working with startups in bringing new ideas to their business, yet 56 percent said their organizational culture needed to change in order to work effectively with startups.

“...Early-stage fintech innovators need the support of large established banks as much as those large organizations need the startups’ new ideas”⁸

⁸ Skan, Julian, James Dickerson, and Samad Masood. “The Future of FinTech and Banking: Digitally Disrupted or Reimagined?” Web. 18 May 2015.

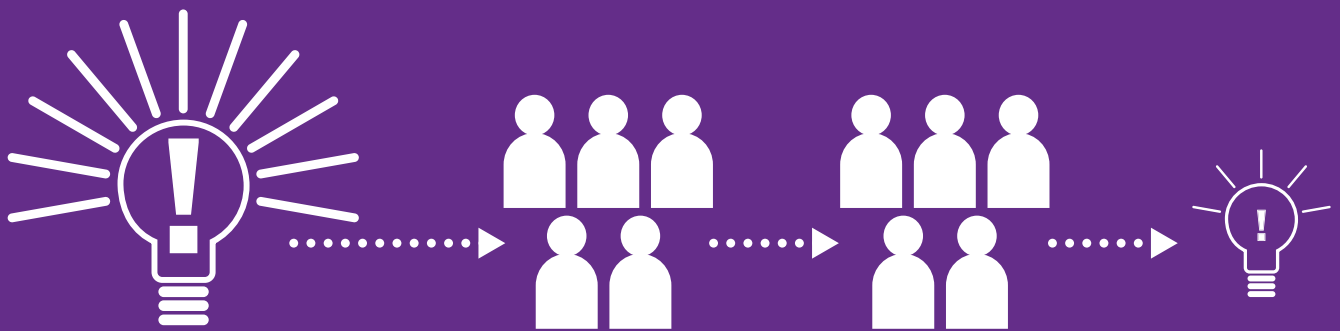
Three Ways for Financial Institutions to Innovate



Most financial institutions realize that innovation is indispensable to their future growth and sustainability in the fintech era. Financial institutions that are serious about driving innovation must:

- 1** Prioritize innovative actions that raise enterprise effectiveness by improving business processes.
- 2** Seek innovation and agility via funding, incubator or accelerator partnerships, before the value of innovation and the financial institution's competitive advantage diminish.
- 3** Ensure adequate modern technical infrastructure, which would not only use fewer financial and energy resources, deliver better performance, and provide greater capacity, but also help to incubate innovation.

Alternates to Death by Committee



At financial institutions, innovation is typically subjected to the committee approval process that effectively spreads decision rights and responsibility to various experts throughout the organization.

As a result, nothing really gets done without involving numerous committees and hundreds of people. The output of this process is often a painfully forged compromise that leaves innovation on the sideline and the customer still yearning for something truly more effective.

If financial institutions want to survive and thrive, there are good alternatives to innovation by committee approach – like purchasing innovation, which allows fintech startups to innovate outside the organization, subjecting the product only to internal processes. By the time a product is being considered for purchase or implementation at the financial institution, it's already avoided the pitfalls associated with design by committee.

“Banks will need to revamp their operations by 2020 to become more digital, truly customer-driven, omnichannel, and innovative. The question is not whether these changes will need to happen but how fast. Early movers will have a clear advantage.”⁹

⁹ “Banking 2020 As the Storm Abates, North American Banks Must Chart a New Course to Capture Emerging Opportunities.” Web. 18 May 2015.

Investnet | Yodlee APIs Enable Collaboration

The technologies used to process and integrate financial services data into new applications, or to provide new views within existing apps, are driven by application programming interfaces (APIs). With a well-defined interface, APIs make it possible for software apps to connect in real time, and for financial institutions and fintech startups to access financial data and collaborate in a way that benefits all.

Over the past 17 years, Investnet® | Yodlee® has worked with a wide range of financial institutions to create one of the world's leading aggregation service and financial applications. As a result, the Investnet | Yodlee APIs are a reliable and trusted data network for millions of users, billions of transactions, and more than 45 million API calls per day, while maintaining an average API response time under 500 milliseconds. Financial app developers can use Yodlee APIs to access the financial account and transactional data they need to develop financially-capable apps. Financial institutions can use Yodlee APIs to foster a culture of innovation by providing developers — whether in-house or out — the ability to access and utilize banking data through a secure access channel.

Investnet | Yodlee Enterprise API

The Investnet | Yodlee Enterprise API aggregates information from multiple departments within a bank into a single API. This API enables developers and innovators to create bank-specific applications that combine the latest capabilities of emerging technology with secure customer and transactional information. In turn, financial institutions benefit from speed to market within a safe and controlled security framework, lower costs through standardized development practices, and the ability to attract the top minds in IT development to the most compelling applications in fintech.

Investnet | Yodlee Aggregation API



Investnet | Yodlee Aggregation API is a new simpler, intuitive RESTful API that allows developers to integrate and access the Investnet | Yodlee Financial Data Platform. It is designed for developers who need permission-based access and bank-level security to access their customers' bank, credit card, investment, mortgage, reward, and loan accounts.

Investnet | Yodlee Account Verification API



With the fully RESTful Investnet | Yodlee Account Verification API, developers can simplify and speed the activation process so consumers can connect to their accounts and use your app immediately. Yodlee Account Verification API offers a safe, secure, and fast way to onboard consumers, connect their financial accounts, mitigate payment and account funding risks, and verify an account and the account status.

Conclusion

The fintech revolution is here — but it’s not a war between financial institutions and fintech startups. Instead, it’s emerging into a strategic opportunity for an alliance between those that see the greater good in collaboration. Financial institutions and fintech startups are realizing they have everything to gain by joining forces to lead the way into the new digital era.

How can I learn more?

- [Download](#) the industry briefing by Collin Cainright: “FinTech Rising Ebook: Developments indicating the future of money, finance, and payments”
- [Watch the webinar](#): “FinTech Rising: How to create synergies with financial institutions”

For more information, visit: www.yodlee.com.





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