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CHALLENGES OF REGULATION AND FINTECHS

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The banking industry has seen tremendous changes in the past 10 years. The financial crash resulted in an overhaul of regulation that damaged the reputation of banks. Coupled with a lack of internal innovation in banks, this crisis allowed Fintech upstarts to grab share in the industry. This has created a new, fractured financial landscape where traditional banks face the challenge of protecting market share from challengers, and answering regulation while trying to benefit from rising interest rates.

Technology and innovation are driving this change in the digital banking world. While this innovation is challenging traditional banks, it also provides the tools with which banks can answer new regulation, like Basel III, while maintaining profitability, building more stability, and operating more transparently and fairly.

Basel III, in short, is designed to improve banks' ability to absorb shocks, improve risk management and balance sheet governance while enhancing transparency. These new measures have changed capital requirements for banks,

introduced new liquidity and funding measures, and instituted new leverage ratios.

Answering Basel III means that customer type, relationship type, and channel type will need to be categorised resulting in a new set of challenges for deposits managers and treasury managers. To answer these challenges, having accurate but versatile data is essential. However, banks have been slow in their move to overhaul technology systems to analyse vast amounts of data and react to the modelling requirements needed to answer Basel III.

On top of this, we see new Fintech industry entrants have been able to step into the arena using their innovative business models and cutting edge technology to take chunks of banks' more profitable product lines, such as lending and payments. These companies are nimble, agile, and wellfunded and brimming with top technology and talent. The acceptance of these new entrants has been accelerated by the damaged reputation of the banking sector from the financial crash.

For the most part, the fear that these Fintech companies would completely usurp banks has not come to pass. This is mainly due to their limited focus and limited customer insight. Fintech startups have a lot to learn about customer behaviour to be successful full line bank replacements.

Despite this though, they are still taking profits away from banks at a time where interest rates are at a low and banks are working to answer the most revolutionary piece of banking regulation in a generation.

Banks can overcome these two challenges with the same answer. Using data analytics, banks can price fairly by incorporating all segment, economic and regulatory variables into pricing decisions, therefore answering regulation whilst providing a much needed answer to the Fintech startups with more fine-tuned offerings. Pricing more segments and products faster and more effectively will allow banks to win and protect their market share while growing responsibly by understanding and optimising the drivers of profitability across their portfolio. This will result in an improved customer experience and deeper market insights.

Banks should use the deep data analytics available to understand the drivers of customer behaviour. They can then ensure that product design fits with this customer behaviour while satisfying Basel III measures. Banks must also use data to inform business strategies, such as optimisation, while remaining compliant to Basel III.

Answering Basel III and combating Fintech challengers while remaining profitable is not easy for banks, but data analytics technology can give banks the edge they need.

Banks will also find that they are in a better situation than they assume they are in when answering these challenges. Banks now have access to vast amounts of customer data. And through the continued introduction of and improvement of customer facing technology, such as mobile banking apps and websites, this will only continue to grow. The data banks hold is the envy of new industry challengers and a key element in answering regulation.

Banks that have invested in their technology offering, either through partnering with a Fintech company or internal technology innovations, will be in a position to be most competitive; they can leverage more and better data to answer customer demands, maximise market-ing efforts, easily integrate new services, and be able to satisfy the regulatory requirements.

Banks can use data analytics technology to have a detailed understanding of their customers and to price based on this understanding, providing the transparency needed to answer Basel III and pricing, and segmentation savvy to take advantage of rising interest rates. IFM

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