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DIFFERENTIATION THROUGH INNOVATION

Banks pick fintech over bigtech

NIKHAT HETAVKAR
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As the focus on product differentiation through innovation and technology increases, banks are increasingly turning to fintech companies over their bigtech counterparts. The agility and fast-paced innovation by fintech companies makes them the ideal partners for banks, especially in product development and innovation.

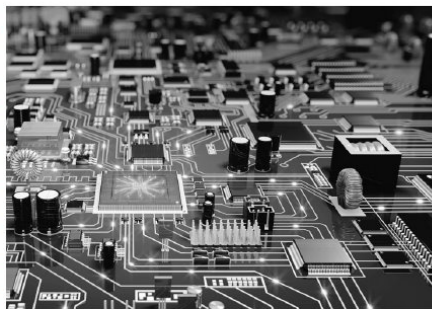
"Fintechs bring fast-paced innovation to specific areas, and make prototyping and piloting of ideas easier," said Rajiv Anand, executive director, Axis Bank. Banks have steeply increased their fintech partnerships over the past few years. Axis Bank, being one of them, has interacted with over 200 start-ups through the bank's innovation lab for fintechs, Thought Factory. It is in active implementation or has completed projects with multiple of them.

Public sector lender Bank of Baroda (BoB) has consciously made an effort to increase fintech partnerships in the last two years. Over the last year, BoB concluded 25 partnerships with fintechs in areas like lending, technology, payments, wealth management, etc.

"In the current paradigm, product development is mov-

ing to an agile method. The structures of bigtech companies are not yet adapted and have not internalised this agility. Fintech companies start off with an agile outlook. There is no doubt that fintech companies are at the frontiers of product innovation. Especially with developments regarding the IndiaStack, AadhaarStack and now HealthStack," said Akhil Handa, head-fintech & new business initiatives, BoB.

Private sector lender YES Bank believes that partnering with fintechs allows banks to leapfrog and capitalise on disruptive innovation. "The half-life of innovations is reducing, and while some innovation happens within the bank, fintechs have the required speed and agility as also lower cost structures, given their focus on one or two core problem statements," said Ritesh Pai, chief digital officer, YES Bank. ICICI Bank has recently set up two innovation labs and also kept aside ₹1-billion fund for fintech partnerships. The bank has already invested ₹400 million and plans to invest the remaining ₹600 million by the end of the year. While the bank has existing partnerships with bigtech companies, the new leg of its product innovation journey is through its own innovation lab



IDEAL CHOICE

- **Fast-paced innovation and agility make fintech the ideal choice** of banks for product development and innovation
- **Banks, across sectors, are increasingly partnering** with and investing in fintech firms
- **Large IT firms still manage the core systems of banks**

as they understand the bank's security and regulatory requirements

- **Bigtechs provide the stability, continuity, and bench strength** to execute large projects
- **Fintech, bigtech will see increased competition** amongst them

and fintech partnerships. Foreign bank Citi India short-listed eight fintech start-ups for partnership earlier this month. "India has leapfrogged into the digital age as the government

has committed to build a digital infrastructure, supported by the regulator and the banking industry. As this ecosystem evolves, we believe we can help our clients navigate this dynam-

ic environment through partnerships with India's start-up community," said Mridula Iyer, head of treasury & trade solutions, Citi South Asia.

Bigtech companies are seeing greater competition from fintech companies when it comes to providing banking solutions, say experts. "Businesses have started using Fintechs to solve many of the pain points in the banking value chain by doing smaller outcome based projects, instead of signing up large long term deals with Bigtechs, said Sachin Seth, Partner and Fintech Leader, Advisory Services, EY India. However, experts say that the role of large information technology (IT) providers for banks cannot be ignored, at least for the time being.

"Large IT companies still manage the core engines for the bank, they understand the bank's security and regulatory requirements and have tailored their systems to suit these needs over the years. Fintech companies too, as the business case, grows need to invest in these areas. The successful ones will eventually become mid-to large-sized companies, while hopefully retaining their innovation DNA, said Axis' Anand.

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