Instead of partnering with Big Tech, banks and neobanks can utilize third-party software in order to acquire the needed functionalities to continue growth, Serge Beck writes in an essay for finews.first.

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As neobanks face more competition each year, some positive aspects of it emerge. Big Tech companies like Apple, Amazon, and Google have made substantial progress in offering digital financial services. For example, Alibaba gave out loans to small businesses, which amounted to more than $63 billion in 2017. To serve as a comparison, this sum is around 30 percent of the amount loaned by the Chinese Commercial Bank. So what can Neobanks learn from such giants as Alibaba and Amazon?
Big tech offers free conveniences to its users, which, when looked upon the bigger picture, amounts to lowering the acquisition cost of millions of users. The more users there are, the better the data insights the company gets.

«Tech companies like Apple, Amazon, and Google don’t simply release products for the fun of it»

In the eyes of Big Tech, financial products are not a final goal but a step along the way that increases customer loyalty further. Big Tech is primarily customer orientated. According to Deloitte, more people are emotionally connected and trust brands like Apple and Google than traditional banking institutions. Tech companies like Apple, Amazon, and Google don’t simply release products for the fun of it. Of course, all of them have had their fair share of failures, like the Google Glasses, for example. However, Big Tech has learned from its mistakes and now primarily focuses on researching consumer needs.

Neobanks can definitely learn from Big Tech that emotional connection and relationships with customers matter. In the aforementioned survey, the people who ranked their used banks the highest had signed up for more products and services with their bank.

Of course, as a neobank, coming up on your own with advanced and innovative customer-orientated products and solutions is extremely resource-heavy. Big tech companies utilize data science and access distribution channels with the help of enormous databases from which they can analyze their customers. Third-party solutions can be used in order to achieve the same thing as a smaller company.

«A good example is how Alibaba partnered with Kabbage»

There are many examples where Big Tech companies partner up with banks and neobanks to issue financial services. But the biggest two and most evident examples are Amazon and Alibaba. A very good example is how Alibaba partnered with Kabbage, which began offering loans to small businesses on Alibaba’s platform. They came up with a financing program for small businesses which allowed people to receive up to $150,000 in the form of a loan.
Later, this program became known as the Pay Later program. Of course, Kabbage, as a fintech company, had no way of issuing loans and had to partner with someone else in order to deliver to Alibaba’s customers. So they partnered up with Celtic Bank to cover the loans.

And if you are wondering why Celtic Bank didn’t skip Kabbage, they couldn’t offer a quick-enough check-up on the small businesses that required loans from Alibaba. With the help of big data, machine learning, and artificial intelligence, Kabbage managed to determine whether a business was eligible for a loan much more quickly than a traditional bank.

“For banks, this kind of partnership can have risks”

Sometimes banks are behind in revenue or simply want to expand safely. Partnering up with Big Tech companies is a safe way to get a wider reach. For example, J.P. Morgan Chase started issuing cards for Amazon’s Prime members, of which there are more than 100 million.

Of course, for banks, this kind of partnership can have risks. Big Tech companies often expand as much as they can, and they can sometimes chew market share from other markets. The more services and the wider services Big Tech companies provide, the stronger they become, and that’s not necessarily a good thing for banks.

That’s the reason why most banks would only partner up with Big Tech if the latter gives them direct access to a large customer base. Banks rarely simply provide services to Big Tech without anything in return. Smart banks and neobanks don’t rely on big tech in order to get innovative features and to analyze customer behavior. Instead, they reach out to third-party solutions that are specialized in that. This results in a cheaper way to form new products and services that are customer-orientated.

“Check out what more successful competitors offer”

First, with the help of third-party SaaS or BaaS (Banking as a Service) software, you can expand your offering. Moreover, starting by analyzing your existing consumers is a good way to go. Also, check out what bigger and more successful competitors offer, and determine whether
the same thing would work for you. Once you’ve done that, third-party solutions can get you @fa and SCA, Passwordless logins, Blockchain technology and security, biometrics, data storage, machine learning UI, and many other solutions which we usually think of when we hear Big Tech.

There are many things banks and neobanks can learn from Big Tech and their partnership. Starting with how to treat customers and how to form a customer-oriented service, neobanks should study the approaches of big tech companies. Moreover, instead of partnering with Big Tech, neobanks can utilize third-party software in order to acquire the needed functionalities to continue growth.

Serge Beck is a serial entrepreneur, venture capitalist, IT specialist and blockchain ambassador. He has over ten years of experience on Wall Street and over ten years of experience as a venture capitalist. He is the CEO and Founder of Optherium, a fintech company developing blockchain solutions. Earlier in his career, he was responsible for engineering innovative technological infrastructures at financial institutions, including Bear Stearns, Republic National Bank, HSBC Bank and Merrill Lynch.
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