Disruptive technology: good news for businesses and banks

By Andries Kok

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The rise of so-called fintech companies will make it easier, and cheaper, to undertake mundane monthly banking transactions.

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In just the same way as Uber disrupted the per-kilometre taxi sector, PayPal the money transfer business and WhatsApp the mobile industry, technology is disrupting the banking sector.

Embracing change

Yet, the changes that are coming, to the way small businesses, entrepreneurs and people bank, should not be seen as a threat, but an opportunity for small companies to save money, and for banks to outsource some of their functions and achieve economies of scale.

The disruptive nature of fintech cannot be discounted in the same way that mobile operators ignored over-the-top companies like Facebook and WhatsApp, which have taken traditionally lucrative revenue streams away from cellular companies.

Cellphone companies in South Africa, apart from Cell C, have refused to embrace the shift to OTT and are now seeking to have them regulated because people are shifting to less lucrative services like data.

Recent McKinsey & Company research, *A digital crack in banking's business model* shows that banks are as vulnerable as mobile operators because they are also relying on high-margin income that can be displaced.

Income areas are the most vulnerable

The study shows that 59% of banks' incomes come from pure fee products, such as payments, advice or loans and deposits. This income generates a whopping 22% on average return on equity.

Yet, these are exactly the areas in which the traditional banking sector will be left vulnerable. Recognising this, innovative banks like First National Bank have already offered technology-based value adds, such as free accounting services for business customers.

Despite this acceptance of the inevitable, agile technology companies with disruptive solutions are chomping at the bit to enter this space and offer transactional services to customers at a fraction of the current cost.

Moving into traditional areas

NerdWallet or BankBazaar are mentioned in the McKinsey report. They aggregate the offerings of many banks when it comes to loans, credit cards, deposits and insurance among other services.

These sorts of products are becoming more and more popular, especially among millennials – or Generation Z – because they are automated, simple to use and save time by obliterating the need to stand in queues. Eventually, the only services banks will offer small companies, entrepreneurs and tech-savvy individuals is a place to get loans and keep their money, and even that will change with time as the rise of services such as BitCoin.

At the same time, this presents an opportunity for banks too, especially those who wish to trim operational costs and become more competitive.

ABOUT THE AUTHOR

Andries Kok is the CFO of Payaccsys. He is a big proponent of using systems automation to run business processes of repetitive nature in a fast, efficient and cost-effective manner. Kok is known for his expensive business knowledge, strategic thinking, analytical, organisational and negotiation skills.