



HSBC PUTS partnership and data at the HEART OF DIGITALIZATION

Coopetition with Fintech

Beginning perhaps with the founding of PayPal in 1998, the rise of Fintech companies and services was fairly gradual until a few years ago. Then it skyrocketed. Now, Apple Pay, Android Pay, Tencent, Alipay, and Ant Pay, are disrupting how consumers and small businesses interact with their finances.

These disruptions, from simple P2P e-money transfers to infrastructure projects that integrate payment platforms on company websites, come at a time when mortgages are out of reach for many and personal loans are risky.

Lending Club, the world's largest

online credit marketplace, issued US\$8.4 billion in loans to consumers and small businesses last year. In the P2P asset management space, Betterment was recently valued at US\$700 million – nearly doubling in value from US\$450 million just a year before.

Banks are taking notice. Many major players in the finance world are calling for increased regulation of the Fintech world. The question is then, what exactly is the relationship between banks and Fintech companies?

According to Knott, “We welcome competition from Fintechs. But we’d rather see them as potential partners than competitors.” In March, for example, HSBC announced its partnership with the Fintech startup Tradeshift, the world’s largest commercial business platform. Knott

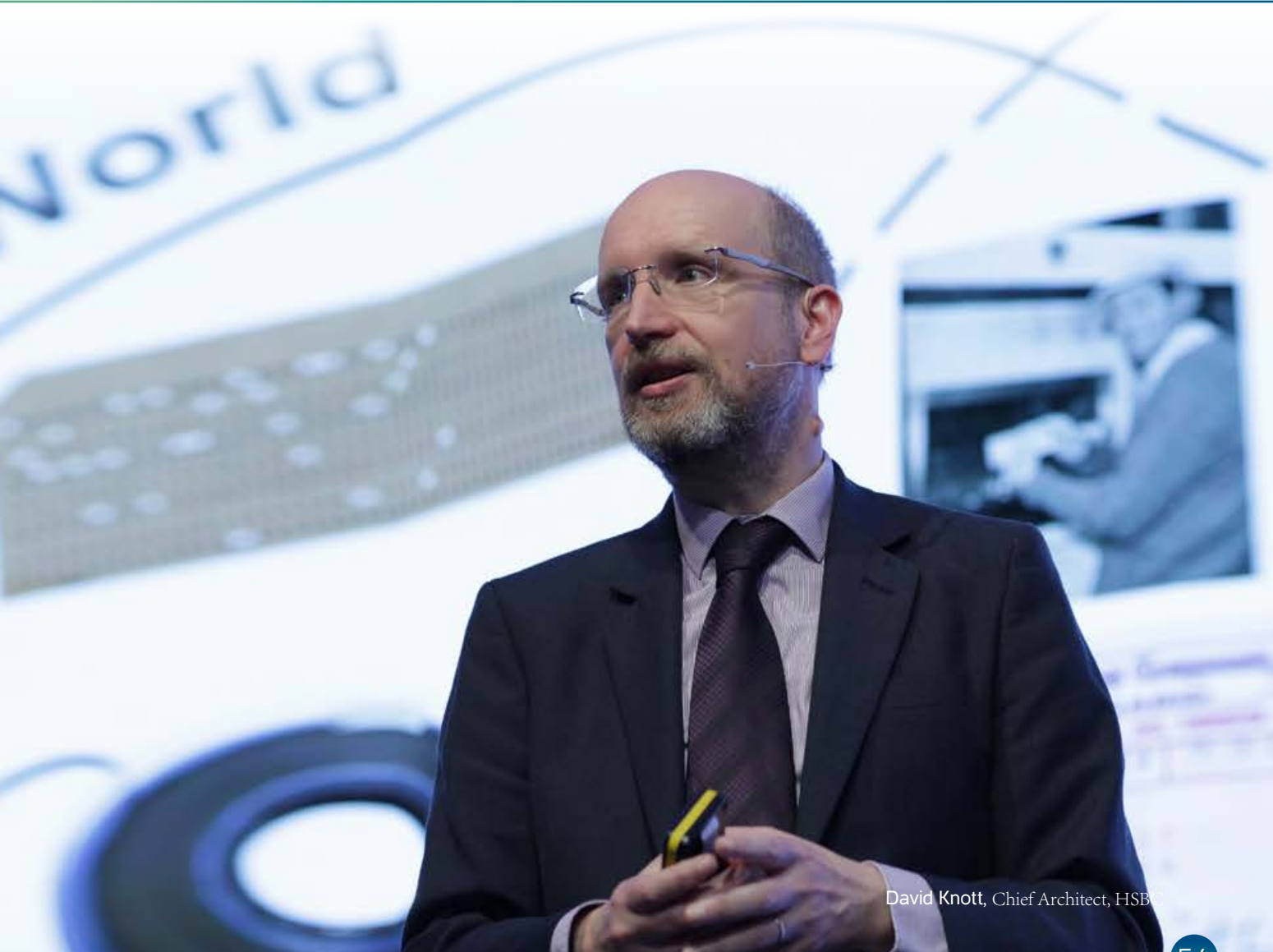
explains that Fintechs are bringing exciting tech to the market, which can provide a compelling offering for financial services customers, “For many years, banks have traditionally been customers of big traditional technology companies,” he says. “However, the market for technologies has been shaken up massively in the last few years. There are new entrants literally every day. I see a lot of partnership opportunities.”

Knott states that on the business side, HSBC operates a large network of partners and customers, “We’re very experienced at building relationships with companies and figuring out how our businesses mutually benefit each other.” On the technology front, he points out that new tech models are emerging. HSBC selects its approach based on desired outcomes, “There are



The world of finance has changed irrevocably. Tech-savvy customers are hungry for lower fees, greater transparency, and fast and easy mobile interfaces, and traditional banks are losing competitiveness and market share to OTT players. HSBC, however, is embracing digitalization and the nascent competition from Fintech startups. HSBC's Chief Architect David Knott outlines the banking giant's vision.

By Linda Xu & Gary Maidment, Huawei



David Knott, Chief Architect, HSBC



According to McKinsey, banks have three to five years to become digitally proficient if they wish to survive.

a whole range of models like revenue sharing and IP sharing,” states Knott. “We can be a straight customer...buying licenses, products and services. But we can also run a technology investment vehicle ourselves.” His view is pragmatic, noting that sometimes the right thing to do is be a customer, while at others it’s better to be an investor, finding out how Fintech companies operate and helping them succeed.

It’s all about digital

The new digital epoch includes rapid innovation in payments and the broader transformation of systems enabled by digital tech. The need to act quickly is acute: According to McKinsey, banks have three to five years to become digitally proficient if they wish to survive.

HSBC is an early adopter and quick to move. Knott explains that, “We’ve organized our business teams and technology teams into smaller teams, [with] highly empowered people working on new technologies with all the environment, skills, and capabilities they need to get stuff done.”

Knott is excited about the impact technology is having on the banking space, “Cloud provides us with a way

to both consume new technologies easily and provide massive and elastic scale,” he says. “Machine learning [lets you] put data to work to train algorithms to make decisions within your business.” He’s clear that AI will have huge influence on the sector and become “deeply embedded in everything we do, whether advising or detecting anonymous transactions or helping process normal transactions.” When it comes to security – a make or break feature when it comes to personal or business finances – he espouses the importance of biometrics. “It’s giving us a means to digitize physical identity, to store a digital representation of people’s physical markers that help us to identify them in a seamless, easy, and secure fashion.”

Be mobile, be agile

Avoka, a digital business platform provider, recently released its 2017 State of Digital Sales in Banking Report, which states that half of all banks lack a function that lets customers apply for most personal banking products online. Avoka concludes that most banks fail to capitalize on their investments in digital marketing and digital channels, resulting in abandonment rates of 70 to 90 percent when potential customers try to open an online account.



In contrast, HSBC provides a strong online and mobile customer service. Knott explains, “Mobile apps will potentially have a profound influence on our infrastructure. It has changed the ‘come to the front door’ way of doing business.” He also comments on how people’s behavior is changing. Where decades ago monthly statements would pop through the letterbox, people now check their financial status multiple times a day. As a result, “We have to make sure that our mobile apps are responsive, and also that our back-ends are tuned and responsive to our customers’ demand,” says Knott.

Being responsive and convenient is part of HSBC’s business ethos. Developed in partnership with the startup Pariti, HSBC’s SmartSave app lets customers put money aside without thinking about it. For example, they can set a rounding rule when they buy something on their card. A purchase of £9.66 would be rounded up to £10, and the remaining 34p would be sent to the customer’s savings account.

To achieve this sort of functionality, says Knott, “We can do caching. We can build certain throttling performance into our APIs.

We’re going to make sure [the system] is resilient and performs all the way down the stack.”

The future

Knott is optimistic about banking in the next decade. Not only will convenience increase, but people will have more control over their finances and “use research tools to figure out what they want by themselves,” he says. “With richer insights about what other people are doing, customers will be more informed and enact decisions in a far more seamless fashion.” He’s also aware that they don’t necessarily want to directly interact with their bank on a daily basis, “Paying for goods and services will be much more seamlessly integrated into our everyday experience, and technologies such as smart sensors, IoT, and 5G will make all that possible.”

Banks are coming around to the idea that building cross-industry partnerships is more productive now than ever before. Knott says HSBC will continue to partner with traditional IT product and service companies, but also team up with many smaller companies. “We have to figure out how we do that without

swamping them with big company processes,” he acknowledges.

Knott also talks about forming stronger connections with partners outside or on the edge of commerce. He’s responsible for the company’s applied and innovation labs, “Through those labs, we’re forming partnerships with academic and research institutes around the world. For example, in the UK, we have a partnership with the Alan Turing Institute. That’s particularly pertinent to data, because they’ve got a very strong data and machine learning focus.” HSBC is currently working on how to use its rich data assets for commercial and social value.

“We’ve also partnered with the Advanced Science and Technology Research Institute (ASTRI) in Hong Kong...in research fields such as biometrics, big data, block chain and other analytics technologies.”

His vision of the future, therefore, extends far beyond what we associate with traditional banks and is very much data- and partner-centric, “I see non-traditional, more academic, and richer network ecosystems becoming more universal as we move forward.” [www.hsbc.com](#)