FStech whiteoaks

Playing together

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27/11/2015

FinTech insights will put banks back at the heart of business innovation, says Shakir Ladak, CTO, Alpha Insight

FinTech innovation comes in many forms – all the way from crowdfunding and social media payment applications to automated, algorithm-based investment advice. The launch of Apple Pay in the UK in July was a high profile example of this phenomenon at the consumer end of the market where there are many changes in the way goods and services are paid for. Major institutions such as Nationwide, Royal Bank of Scotland and Santander signed up to Apple Pay from the outset and more have joined subsequently.

With no regulators, heritage IT systems or branches, lesser-known FinTech companies have nonetheless made quick in-roads, particularly in facilitating lending to small businesses. Their agility, low overheads and fees, mean that some commentators predict these companies will reduce banks to deposit-taking payment utilities, while others, perhaps more reasonably, believe they will simply compel them to cut costs.

There is, however, a greater appetite for co-operation between banks and FinTech outfits than in the previous short history of the sector. In a survey of 25 senior banking executives conducted by Accenture earlier this year, the majority of respondents (72 per cent) thought their banks would increase investment in technology innovation over the next two years.

Payments is certainly a key area where these innovators are now working closely with banks internally to bring substantial benefits to clients working in other sectors. By introducing an entirely new level of flow monitoring, a FinTech innovator can give a third party such as a major online retailer or innovative car finance company full confidence in the processing of every kind of transaction. This means it never need fear that its own customers, suppliers or workforce miss out on crucial payments, pulverising its reputation.

This is a branch of bank technology that has been woefully neglected and is only now being revolutionised through the application of smart business flow monitoring solutions. The dire need for action is there for all to see. As recently as August, NatWest and HSBC suffered payments failures. In the latter case, 275,000 payments failed to clear on a Friday, leaving many customers furious, while earlier in the summer, 600,000 RBS payments failed to enter customers' accounts.

It is readily acknowledged within the industry that one of the biggest problems facing the banking industry is its inability to effectively monitor its infamously complicated IT systems. These were often set up to meet particular challenges and consequently fail to provide a genuine end-to-end view of payment systems. It is here that a FinTech company with genuine insight into the banking sector and its processes can build on the power of commonly deployed monitoring technology.

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Using expertise gained from the industry, it is possible to develop the right business logic for each institution, defining what is critical, so that it can be measured in context. This means all threats are flagged up before they do any damage – whether that is a potential breach of financial regulations or a failure in payments or reconciliations.

Each process within a bank is mapped in relation to the underlying technology, before smart metrics (KPIs) are defined. The important KPIs then become a set of service level targets (SLTs) that form the basis of its monitoring, alerting parameters and monitoring points to support the metrics that are delineated. Dashboards are designed and tested and teams trained before the solution's predictive capability develops.

Deploying this FinTech expertise, a bank suddenly gives its clients new confidence in payments and in any other transaction processing. Indeed, equipped with business flow monitoring that uses the correct logic, a bank can be the first to spot problems in the transaction processing of clients from other industries. It may well be, for example, that their technology is failing to transmit a significant amount data in time to meet a critical deadline.

By informing the client when alerting is at amber rather than red, there is time to fix the problem and plan a solution to avoid it in future. Not only is disaster averted, but the bank's reputation for problem-solving and insight into processes is significantly enhanced. This is certainly one way that a specialised FinTech firm is capable of radically improving the relationships of major banks with other industries at a time of great change and competition.