News Release

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Fintech is an opportunity, not a threat to Bangladesh's banking industry

The new wave of financial technology – better known as fintech – is often portrayed as a disruptive force that threatens banks with new, agile and savvy competitors. Fintech is transforming the way people and companies connect with their banks, and the way banks manage their back-office operations.

"Fintech complements rather than threatens banking institutions. In my experience, banking has always been about technology, so today's financial-technology innovation boom represents evolution rather than revolution for traditional banking. It is supplementing and diversifying the existing financial system – not replacing or disrupting it" said Francois de Maricourt, Chief Executive Officer, HSBC Bangladesh.

Since the global financial crisis of 2007-2008, regulations have continued to evolve and become increasingly complex, which means more costly and time-consuming processes for banks. At the same time, a new challenge has emerged: Financial Technology.

Fintech innovators harness internet and mobile technologies and big data to offer a range of tools and services – from tech-enabled payments and crowd funding, to currency exchange, online lending and wealth management services. The goal is to make financial services more efficient, and improve the service that customers get from their banks.

The fintech market has attracted a gold rush of investment in recent years, particularly by venture capital firms that are eager to back start-ups in the sector. In the Asia Pacific region alone, investment in fintech players has risen from US$103 million in 2010 to US$4.3 billion in 2015, according to Accenture.[1] Furthermore, in the first seven months of 2016, investment in the region has reached $9.6 billion, doubling 2015's figure.[2]

According to the data of the Bangladesh Telecommunication Regulatory Commission (BTRC), at the end of February 2017, Bangladesh had 67.25 million Internet users and 129.58 million mobile subscribers, making the cell phone a strong medium to perform many other business activities besides communication. Bank-led Mobile finance services has seen a rapid growth and has become an important tool-of-the-trade for extending banking services to the unbanked/banked population.

There are 52.68 million registered mobile banking accounts as of May 2017, as stated in the Bangladesh Bank website. However, despite this rapidly growing number, cash is still the most prevalent form of financial transaction. It is expected cash transaction will reduce in the next few years and mobile money will grow as more and more people will start paying money for private and government services through mobile wallet. Other FinTech sectors are yet to see any strong market players.

Taking in to account the current market scenario, to say that the fintech boom is cannibalising traditional banking would be an exaggeration.

If we look closely, fintech is currently only focusing on a mere fraction of the financial-services spectrum. To date, much of the focus of Fintechs has been on retail banking services – lending and financing along with

[1] http://www.scmp.com/week-asia/business/article/2020094/fintech-next-frontier-hong-kongs-battle-singapore

[2] https://newsroom.accenture.com/news/china-leads-global-fintech-investments-accenture-finds.htm

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payments-related products and services, where mobile and e-commerce has led to real demand from consumers.

Similarly, peer-to-peer lenders appear to be more focused on small businesses and higher-credit-risk borrowers than on mainstream banked clients.

We have seen major technological innovations in the past – credit cards, automated banking machines and online banking, to name just a few.

Commenting on the technological innovations of the past, Francois commented, “Those changes provided huge advances in convenience for consumers, but they did not revolutionize the financial landscape: financial institutions remained the dominant players and adapted to these changes. Unlike fintech start-ups, banks have had decades to build extensive infrastructures, develop solutions for compliance and regulatory requirements – and most importantly – earn consumer trust.”

Banks are investing heavily in new technologies. And spending is expected to continue to grow as banks seek to take advantage of new IT and digital solutions to make their operations more efficient, comply with regulators whilst simultaneously increasing interaction with customers in order to maintain competitiveness. Cloud computing, big data, advanced analytics such as data storage technology that enables high-speed analysis of massive data sets, blockchains, artificial intelligence and quantum computing – to name just a few – offer significant opportunities for banks.

Another approach gaining traction with many major banks is the creation of innovation labs: semi-autonomous groups funded to accelerate innovation and incorporate new technologies and skill sets. These labs are creative think-tanks where the futures of traditional financial institutions are being nurtured.

But equally, with fintech gaining significant momentum, banks are now looking at how they can co-operate or co-innovate with start-ups, rather than compete directly.

Big banks and fintech start-ups have a great deal to offer each other. Banks have a large customer base, stable infrastructure, assets and regulatory know-how. Start-ups provide out-of-the-box thinking, technical expertise, and agility to adapt quickly to change.

Together, they can be far more successful at improving the financial services and customer experience than if they compete against one another. And we'll witness far greater collaboration and integration in the coming years.

According to Bangladesh Association of Software and Information Services (BASIS), at present there are about 1500+ IT and ITeS (Information Technology Enabled Service) companies employing approximately 70,000 professionals. Including export, the total size of the IT Industry is approximately US$ 800 Million with over 160 IT companies currently exporting to more than 60 countries.

Bangladesh fintech is an early stage market. Getting funding is still a source of challenge. However, fintech can create a huge opportunity for greater financial inclusion and expansion of basic services. It can be used as a powerful means to expand access beyond financial services to other sectors, including agriculture, transportation, water, health, education, and clean energy.

Digital solutions and new technologies will help to overcome the massive challenge of providing access to financial services to the poor and will contribute towards achieving the Governments’ goal of universal access to financial services by 2021.

Banking sector will look quite different in the coming year than it does today – with regulation, technology, demographics and changing customer expectations. In as much as financial technology is putting pressure on banks, it is a lot further away from a disruption. The established banks are likely to remain key players.

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