



BEYOND DIGITAL THEATRE

Fintech Did Not Need to Become a Bank to Threaten Banking

How unbundling, mobile behaviour and post-crisis economics exposed the weakness beneath financial services' digital response

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1. The Threat Arrives Sideways

In the summer of 2013, the most revealing conversation in a retail bank is often not taking place in the boardroom. It is taking place in a monthly channel meeting. The mobile team reports another sharp rise in log-ins. The branch director notes that counter transactions are falling, but branch costs are not. The head of cards points to a new payments entrant that has acquired customers without building a single branch. Everyone agrees that customer behaviour is changing. Then the meeting turns to next year's budget, and the investment remains organised around products, channels and systems much as it was before.

Nothing in that scene looks existential. That is precisely the danger.

The early debate about financial technology has been framed too often as a contest between new firms and established banks: which entrant might become a bank, which bank might build the best mobile application, whether customers would trust an unfamiliar provider with their salary. These are understandable questions, but they look for disruption in the wrong shape. The more serious threat is not that one new institution replaces an old one. It is that dozens of focused businesses take apart the bundle from which the old institution draws its economics, information and customer loyalty.

A bank appears to sell current accounts, loans, cards and savings. In practice, it has long benefited from something more powerful: the habit of being the customer's default financial address. The account brings transaction data; the data informs credit decisions; the relationship lowers acquisition costs; the branch provides reassurance; and the inconvenience of moving keeps the bundle intact. A mobile phone, better data connections and simpler interfaces do not merely add another channel. They reduce the friction that held that bundle together.

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2. From Competition to Unbundling

Traditional competitive analysis encourages a bank to compare itself with other banks. That comparison remains necessary, but it is no longer sufficient. A specialist payments service need not fund mortgages. A peer-to-peer lending platform need not maintain a national cash network. A digital savings intermediary need not operate a call centre capable of handling every product. Each can choose a narrow point in the value chain, design around it, and avoid much of the inherited cost.

The result is asymmetric competition. The incumbent must preserve reliability across the whole estate while the entrant concentrates on a profitable inconvenience. One side carries the full burden of continuity, regulation, legacy systems and customer service; the other attacks a seam.

The pattern can be seen in four forms:

- Interface unbundling: the customer begins a financial task somewhere other than the bank's own branch, website or call centre.
- Product unbundling: a specialist makes one product easier to understand, apply for or compare.
- Information unbundling: an intermediary becomes the place where customers organise and interpret their financial position, weakening the bank's informational advantage.
- Economics unbundling: attractive fees or customer segments migrate, while capital-intensive products, cash handling and complex service obligations remain.

This is why a mobile application, considered only as a cheaper service channel, is an inadequate response. The question is not whether the bank can reproduce its internet portal on a smaller screen. It is whether the bank can remain the place where a customer starts, completes and understands a financial decision.

3. Why Seriousness Came Late

There is a respectable argument for caution. Banking is not music retail or travel booking. Depositors value safety. Payments must work every time. Credit decisions carry consequences for customers and capital. The post-crisis agenda has rightly absorbed management attention: stronger capital, better liquidity, conduct, remediation and a new regulatory architecture. A young technology business can tolerate failure in ways that a deposit-taking institution cannot.

That argument explains restraint. It does not justify strategic delay.

Incumbents have tended to dismiss new entrants for three reasons. First, each entrant appears small beside a bank's balance sheet. Second, the service often sits at the edge of the regulated core. Third, early revenues can look trivial. Yet those measures overlook what is being captured: the customer interaction, the learning cycle and the

profitable moment of choice.

Consider a composite retail bank with eight million customers. In one quarter, branch transaction volume falls by 11 per cent and mobile log-ins rise by 34 per cent. The finance pack treats the first figure as a property-cost problem and the second as evidence that the digital programme is succeeding. But branch costs fall by only 2 per cent, because leases, security, cash handling and minimum staffing are stubbornly fixed. Meanwhile, 38 per cent of customers abandon an online personal-loan application before completion, largely at the point where information already held elsewhere in the bank is requested again.

A specialist lender completes a narrower application in minutes. Its balances are immaterial to the incumbent, so the threat is classified as small. But within two years of repeated interactions, the specialist may know which message attracts a customer, where applicants hesitate, how quickly documentation can be checked and which borrowers refer others. The bank still has more data in aggregate; the specialist has created a better mechanism for learning.

That distinction matters. Scale is a stock. Learning is a rate. A large stock can conceal a dangerously slow rate for a long time.

A bank does not become vulnerable when an entrant matches its balance sheet. It becomes vulnerable when the entrant learns faster at the point where the customer chooses.

4. The Transformation Theatre

Once disruption is acknowledged, the next failure is often organisational theatre. A digital unit is established, an innovation fund announced, a mobile release accelerated. These actions are visible and may be useful. They also allow the underlying operating model to remain untouched.

The transformation stalls at the boundaries the customer cannot see. The mobile team can redesign a screen in three weeks, but a change to credit policy waits for a quarterly committee. Marketing can test a message, but customer data sit in product files with different definitions. A new account journey looks simple until identity checks, fraud rules, fulfilment and complaints handling reveal six separate owners. The technology is modern at the surface and Edwardian in its division of labour.

A typical sequence runs like this:

1. The board asks for a digital response and approves a portfolio of channel projects.
2. Each product business protects its own economics, systems and risk appetite.
3. The digital team improves presentation but lacks authority over the end-to-end process.
4. Benefits are counted as log-ins, downloads and paper saved, rather than completed customer outcomes or migrated cost.

5. The branch and call-centre estate remain substantially unchanged, so digital volume is added without removing structural expense.

This sequence creates a paradox. The bank can become busier with digital activity while becoming no more digital as an institution. It launches more frequently but decides no faster. It collects more data but joins up little of it. It celebrates channel adoption while carrying the same duplication underneath.

The gap between intent and reality persists because transformation is governed as a set of projects. Projects can deliver a mobile feature or replace a system. They cannot, by themselves, resolve who owns the customer journey, which legacy process will cease, or which product profit-and-loss account should bear the cost of a shared capability. Those are operating-model decisions. When they are left implicit, the institution defaults to its existing structure.

5. Trust Is an Asset, Not a Moat

The strongest defence of established banks is trust. Customers may experiment with a payment service, the argument runs, but they will not entrust their main financial life to an unknown firm. There is truth here. Trust has been accumulated over decades, reinforced by regulation, deposit protection and the physical presence of branches.

But trust is not a single reservoir. It is earned and spent task by task.

A customer may trust a bank to hold deposits safely while distrusting it to offer a fair foreign-exchange rate. They may trust its fraud controls while resenting the time required to open an account. They may believe that a branch will exist if something goes wrong, yet prefer another provider for the daily act of paying, borrowing or monitoring expenditure. Functional trust can migrate before institutional trust does.

Nor should banks assume that a branch automatically strengthens confidence. If the customer begins an application online, repeats the information by telephone and then visits a branch with paper evidence, the branch is not reassurance; it is proof that the organisation cannot remember. In an era of increasingly capable mobile services, such discontinuity becomes more visible, not less.

The serious response is therefore not to imitate every entrant. Most new ventures will remain small; some will fail; some propositions solve inconveniences that customers will not pay to remove. The bank's task is to distinguish novelty from a change in the structure of advantage.

Question	Weak signal	Strategic signal
Is the entrant large?	Current revenue or customer count	Speed of acquisition and repeat use
Is the technology impressive?	Novel feature	Removal of a costly or frustrating step

Question	Weak signal	Strategic signal
Are customers switching banks?	Full account closures	Migration of valuable activities and attention
Is digital adoption rising?	Log-ins and downloads	End-to-end completion and cost taken out
Does the bank have more data?	Volume of records	Ability to use information in the next decision

6. What Taking the Threat Seriously Requires

Seriousness begins when leaders stop treating financial technology as a topic owned by the technology function. The issue concerns the bank's future sources of margin, information and relevance. It belongs in strategy, risk, operations and capital allocation at the same time.

Three changes follow.

First, govern customer outcomes across products and channels. A named executive should own a journey such as borrowing for a home or managing everyday money, with authority to convene product, operations, risk and technology. This does not abolish product accountability; it prevents the customer from becoming the unowned space between products.

Second, measure learning and subtraction. In addition to delivery milestones, leaders should ask how long it takes to move from observed customer behaviour to a changed service, what proportion of applications complete without manual repair, and which process, system or unit cost has actually been removed. Digital volume without subtraction simply layers new expense onto old.

Third, create a disciplined way to engage with specialists. Partnership, minority investment, acquisition and internal build are different tools, not badges of modernity. The choice should turn on where control matters. A bank may sensibly partner for a peripheral capability, invest to learn where the market is unsettled, acquire when integration creates genuine advantage, and build where customer data, risk judgement or strategic differentiation are central. The mechanism matters more than the announcement.

None of this makes speed easy. A bank cannot discard its obligations, and it should not envy the freedom of an enterprise that has yet to encounter scale, fraud or a stressed credit cycle. But the choice is not between reckless imitation and prudent immobility. It is between designing speed inside the disciplines of banking and allowing those disciplines to become an alibi for delay.

7. The Expensive Remainder

The deepest risk in 2013 is not immediate disappearance. It is gradual hollowing.

The bank retains the balance sheet, the regulatory burden, the branch leases and the duty to serve complicated needs. Other firms capture the frequent interactions, the clean interfaces, the comparison moment and the most attractive fee pools. Because deposits remain and reported market shares move slowly, the institution can look stable while the quality of its position deteriorates.

This is how existential threats usually enter established organisations: not as a visible blow, but as a sequence of individually tolerable losses. A payment here. A loan application there. A customer's attention shifted elsewhere. A talented team frustrated by a committee cycle. Each event is too small to force a response. Together they change what the organisation is for.

Banks have begun to take financial technology seriously because the pieces are becoming easier to connect. Mobile behaviour is no longer marginal. Specialist entrants are no longer merely presenting clever demonstrations. Post-crisis economics make a high fixed-cost model harder to defend. Customers increasingly compare the best financial experience not only with another bank, but with the simplest services they use elsewhere.

The appropriate conclusion is neither panic nor complacency. Banking still possesses formidable advantages: trust, capital, customer relationships, risk knowledge and infrastructure. But advantages are perishable when they are trapped inside structures that cannot act on them.

The decisive question is no longer whether financial technology is large enough to threaten a bank. It is whether the bank can change before the profitable parts of banking cease to require one.