Traditional banks’ strategies against FinTech: The case of Morocco

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Abstract —

This work aims to study the different strategies of banks facing the fintech revolution based on an empirical study among some Moroccan banks, the results of this study show that Moroccan banks are mostly aware of the opportunities and threats of these new players. As a result, several strategies are possible.

Keywords—FinTech, banks, strategies, digital, Morocco.

I. INTRODUCTION

Since the financial crisis of 2007, the principles of finance have been challenged by the change in regulations in the banking sector and the intensive use of digital technologies that began in the 1950s with credit cards. Indeed, Blockchain introduces the notion of trusted third party, big data allows for better risk management, and crowdfunding platforms redefine financial intermediation. As a result, new players designated by FinTechs[1] are emerging and the distribution methods of traditional banking and financial services are changing. Also, customers are adopting an unprecedented behavior and forcing traditional banks to be more transparent. Faced with the rise of FinTechs, traditional banks are responding by mobilizing monitoring systems and implementing cooperation strategies with these FinTechs. Various forms of cooperation have been envisaged depending on the issues pursued by these banks and the integration effort they wish to ensure.

In Morocco, a new banking law, Law 103-12, has been in force since 2014. It is far better known for its introduction of participatory banking than for what it brings to FinTech. Indeed, this law introduces two concepts that are essential for the development of Fintech in Morocco. The concept of the Establishment and payment agent which will put an end to the monopoly situation of the banks of the services and means of payment. In addition, Bank Al-Maghrib published two circulars concerning payment institutions and payment services allowing its implementation. Furthermore, according to a study entitled "Digitalizing Africa: The rise of Fintech Companies,” conducted by PwC in Morocco in partnership with Casablanca Finance City on the evolution of FinTech in Africa, Morocco seems to be well prepared to accompany the development of these FinTechs despite an ecosystem that is slowly evolving.

In view of given this situation, a question deserves to be asked: What are the strategies of Moroccan banks in the face of the FinTech revolution? The objective of this article is to answer this question by examining and analyzing the reaction of banks to FinTech.

To answer this research question, our paper will be organized in two parts. The first one presents the factors that overwhelm banks today and make them fragile in front of fintechs as well as a review of the strategies implemented by banks to counter fintechs. The second part will be devoted to an empirical study whose data are derived from a questionnaire intended for professionals in Moroccan banks.

II. BANKS FACING FINTECHS: A REVIEW OF DIFFERENT STRATEGIES

A. The three factors that make banks vulnerable to fintechs

a. Prudential regulation

Banks are at the heart of the financing of economies, mainly where financial intermediation is more advanced. In order to maintain the stability of the banking sector and reduce the risk of bank failure, regulators intervene through laws and mainly prudential regulations to protect both savers and borrowers. However, while the 2008 financial crisis confirmed the need to adapt prudential regulations, financial institutions denounced the excessive cost of the new Basel regulations, a cost that would inevitably weigh on the activity of banks, and consequently on economic activity [1].

[1] The Financial Stability Board (FSB) defines FinTech as "Technology-based financial innovation that could lead to new business models, applications, processes or products that have a material impact on markets, financial institutions and the delivery of financial services."

Despite these benefits, which lie in allowing banks to have sufficient and quality capital, contribute to reducing the severity and scale of financial crises as well as improving the resilience of the banking system in case of a crisis. These additional capital requirements for banks in terms of solvency regulation and liquidity risk contracting the supply of credit, a key variable in the financing of economies, so the strengthening of bank capital means an increase in regulatory capital holdings to the detriment of the bank's resources.

Protected a long time ago by specific and complex regulations, the banks are now prisoners of this new regulation. Indeed, all these new rules weigh heavily on the banking sector and do not allow it to react with the flexibility and agility it needs to adapt to innovation: These are not only prudential requirements, but also requirements related to the organization of the institution, not to mention the heavy compliance rules, all of which do not allow institutions to respond effectively to the new expectations of customers. [2]

However, fintechs are exempt from regulation and have a more flexible status, as their activities do not cover all banking services.

b. The traditional mode of organization

The second constraining factor for banks is the way they are organized. Indeed, the traditional players are structured vertically, and all their action revolves around the product, its design, its production, its marketing and its sale to customers. In addition, the calculation of margins and the analysis of profiles are made according to the products [2].

With the arrival of the Internet and the democratization of its use, this mode of organization has profoundly changed. In fact, this mode of organization becomes inefficient and very difficult to manage. On the other hand, the new digital players, and more specifically the fintech players, organize themselves horizontally, and according to the customer. Therefore, a product or service can only be sold to a customer if it meets the customer's need [3]. Fintechs analyze customer behavior and leverage their agility to offer and deliver products that perfectly meet the needs of consumers. In the end, the fintechs' organizational mode is more adaptable, more agile, and more resistant to shocks and complexities.

c. Distribution via Agencies

The distribution mode via bank branches will be impacted in the coming years by this disruptive technological upheaval [4]. En effet, ce mode de distribution a vécu longtemps sans aucun changement. In addition, branch network maintenance costs, as well as IT costs, are the highest cost category for banks, while customers use of the branch network is becoming increasingly infrequent.

In summary, the heavy structure associated with the existence of a very old and overabundant distribution mode and a vertical and inefficient organization mode that is more difficult to manage, as well as a regulation that has become very demanding and constraining, make banks less agile and inert in the face of technological innovation and unfit for revolutions and facilitate the emergence of new players.

B. banks' strategies towards fintech

With the rise of fintechs, traditional banks are responding by mobilizing monitoring devices and by implementing several strategies and forms of collaboration. We review these different strategies and their benefits.

a. The Investment Strategy

With a diversified and aggressive investment strategy, banks can quickly position themselves on the services offered by FinTechs, and thus catch up. According to a survey conducted by Statista in February 2015, 20% of banks are choosing to compete with fintechs through an investment strategy and 10% through acquisitions.

According to the KPMG 2020 report, FinTech continues to attract investors from around the world. Indeed, since 2014, investors and acquirers have had a sustainable interest and continue to engage with fintechs[5]. This involvement and movement of funds concern all types of investments, stages of growth of the company: venture capital, development capital, mergers and acquisitions.

Banks recognize that digital transformation is a critical competitive factor and therefore investing in FinTech is a strategy to gain direct access to the new technologies they need to meet their customers' needs.

b. The collaboration strategy

Besides the investment logic, cooperation between banks and fintechs remains the most common strategy. According to the Global Banking Report, in 2017, 91% of banks and 75% of fintechs said they were willing to cooperate. This collaboration may take the form of commercial and distribution partnerships that allow the partners to open up new horizons and segments in this strategy, each actor brings to the other what he can do better. On the one hand, fintechs with their platform bring agility and the ability to process huge amounts of data in a very short period of time and, on the other hand, banks bring customer trust, huge potential of economy of scale and better risk management.

c. The Coalition

A coalition model is emerging to enable the various actors to protect their interests. Indeed, alliances, both joint and opposing, between banks and fintechs have been emerging in recent years as demonstrated by many of initiatives such as R3, a consortium of 45 banks that is designing standardized solutions based on distributed ledger technologies similarly, UBS's Fintech Innovation Lab in London gives banks the opportunity to explore the potential of blockchain and catch up with fintech in terms of innovation. It allows for partnerships with banks and testing within the Ethereum protocol.

The objective is to collectively develop norms and standards around these new disruptive technologies and to identify new use cases.

d. Incubation and acceleration

Several banks have chosen to adopt this strategy as another approach to collaboration with fintechs. Indeed, according to a survey by Efma-Infosys Financial Innovation, 43% of banks participate in incubation programs, it is impossible to treat them all in an exhaustive way, here are some examples among

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others In France, Crédit Agricole is launching CA Store, a platform open to developers to create applications for the bank's customers, and Le Village, an incubator for young start-ups in all areas of the tech industry. For example, BNP Paribas has created a FinTech accelerator in collaboration with L'Atelier, which brings together banking professions and fintechs to address business issues. Finally, Barclays launched a dedicated fintech accelerator program in London in 2014, in partnership with Techstars.

In the end, whether they choose to ally themselves or oppose the banks, Fintech has become unavoidable. Taking an increasingly important position in the banking sector, Fintechs have become so dominant that they are succeeding in supplanting banks in their field, as a precursor to PayPal.

II. THE STRATEGIES OF MOROCCAN BANKS FACING THE FINTECH REVOLUTION

After examining the different strategies of banks internationally in the face of the fintech revolution. We will focus this section on the Moroccan context and see how Moroccan banks will react to fintechs.

A. Methodology

In order to collect the necessary data to conduct a qualitative study, this approach was chosen, as it is the most appropriate way to answer the problematic of this article in the Moroccan context. We chose to set up an online questionnaire via GOOGLE FORMS which we distributed in two different ways: by email and by diffusion on the networks (Facebook and Linkdln). There are several advantages to submitting a questionnaire online. It is relatively simple to administer and facilitates the collection, analysis and interpretation of the information collected.

In this questionnaire, we have opted only for so-called structured questions. In this type of question, the author of the questionnaire determines a series of valid answers, but also the answer format.

B. Presentation of the Sample

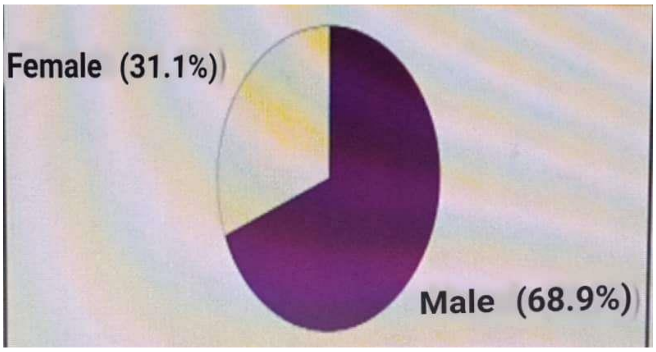
The objective of this research is to study the strategies and reaction of Moroccan banks to fintechs. To achieve our objective, we will use a qualitative approach. This choice is dictated, on the one hand, by the nature of the research question and, on the other hand, by the lack of statistical data on the subject.

Due to limited resources and the inability to specify a sampling frame, we opted for a purposive sampling method to select respondents. The objective is to get answers from people working in the banking sector who are concerned by Fintech. Finally, our sample of respondents is essentially made up of the personnel of 3 participative windows and 13 Moroccan banks with universal character.

C. Results and data analysis

We begin our analysis of the results obtained with a brief description of the profile of the respondents to the questionnaire. Of the 45 who responded, 31.1% were women, or 14 people, and 68.9% were men, or 31 people.

Figure 1: distribution of respondents by gender

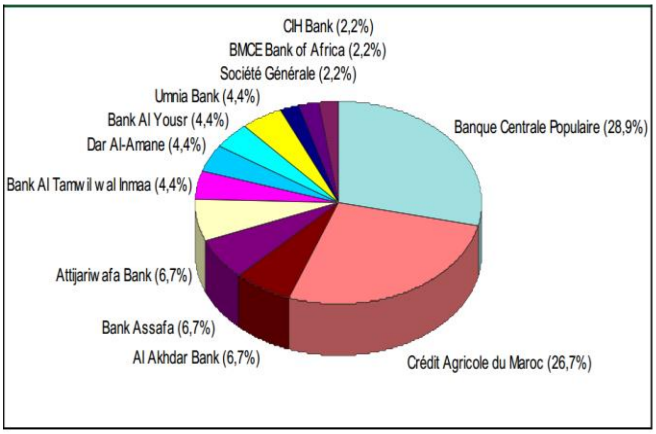


Source: survey data

Regarding the age groups, the two best represented are the 25–34 years and the 35–44 years with 53.3% and 24.4% or 24 and 11 respondents each. Then, we find the least represented are 65 years or more (0%) and the under 25 years with 4.4% or two people. Then we find the 45–54 year-olds and the 55–64 year olds with 11.1% and 6.7% or 5 and 3 respondents each.

We received responses from all participatory banks and six conventional banks and a single dar Al aman participatory window from Société Générale. In addition, the most represented banks are BCP and CAM with 28.9% and 26.7% respectively or 13 and 12 respondents for each. For the most represented participatory banks are Al akhdar bank and Assafa bank with 6.7% or the same number of respondents 3 for each.

Figure 2: Banks participating in the survey

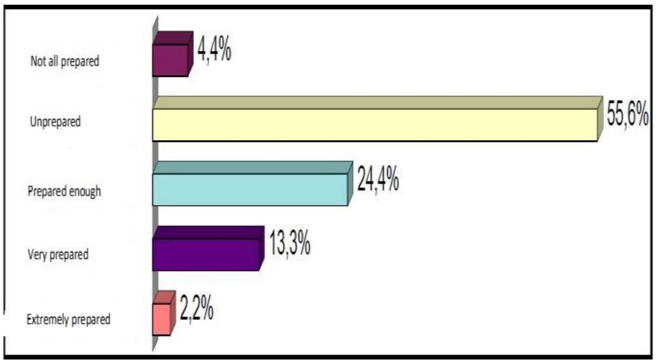


Source: Survey data

Regarding the strengths of fintechs, the answers are surprising, most respondents recognized these strengths. Indeed, 40% of respondents strongly agree that customers will opt for fintech services because they are simple, fast and efficient and 31% also strongly agree that fintechs are less demanding in terms of guarantees. At the end, 28.9% strongly agree that the services offered by fintechs are cheaper than those offered by banks.

In addition, we are looking at the extent to which Moroccan banks are ready to react to the repercussions of FinTech. The results show that 55.6% or 25 respondents consider their bank to be unprepared for the repercussions of fintechs and only 2.2% of respondents said their bank is extremely prepared. In addition, 73.3% of respondents indicated that their bank would invest in fintechs if there are good opportunities and 26.7% say their bank looks forward to fintechs enthusiastically.

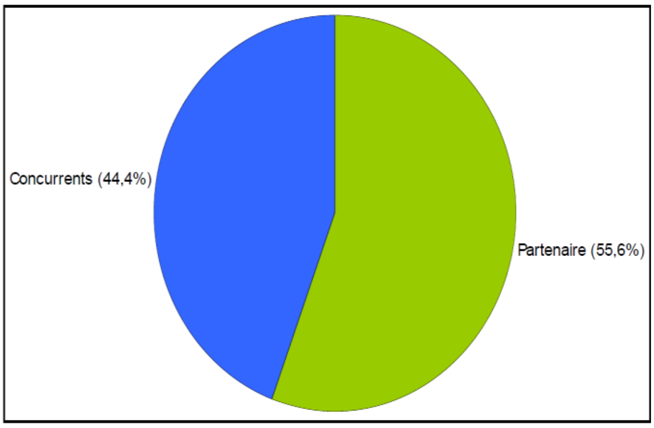
Figure 3: the current state of Moroccan banks in the face of fintechs



Source: Survey data

In addition, we want to know the nature of the relationship of Moroccan banks with fintechs.

Figure 4: The perception of fintechs



Source: Survey data

In this sense, 55.6% of respondents confirmed that it will perceive fintechs as partners, while 44.4% will perceive it as competitors.

Regarding the current state of Moroccan banks towards fintechs, 28.9% of bankers surveyed indicate that their bank monitors fintechs in order to respond competitively and 24.4% indicate that their bank will engage in a partnership with fintechs. In addition, 17.8% say that their bank will proceed with the purchase of the services offered by fintechs and only 15.6% who say they will not deal with fintechs.

C. Discussion of the Results

The results of the analysis of this questionnaire show that the majority of Moroccan banks are aware of the opportunities and threats of these new players. Indeed, most respondents say that the rise of FinTech within the banking sector allows them to develop products and services, accelerate financial inclusion, improve customer retention and reduce infrastructure costs. As a result, 55.6% of respondents confirm that their bank sees fintechs as partners. In this sense, Moroccan financial institutions are increasingly interested in Fintech, as evidenced by several events and initiatives such as the "Fintech challenge" of the Banque Centrale Populaire, the "Smart Up Hackathon" of Attijari Wafa Bank and the partnership between Société Générale and CEED for the "Open Tech Challenge."

Nevertheless, a share of respondents indicates that the rise of fintechs threatens traditional players. These threats are increased price competition, loss of market share, information security (threat of privacy) and increased customer churn. It is for this reason that 44.4% of respondents say their bank perceives fintechs as competitors.

It can therefore be concluded that Moroccan banks can be segmented into two groups. On the one hand, the group that perceives fintechs as partners and seeks to seize the opportunities offered by them and, on the other hand, the group that considers fintechs as competitors and seeks to avoid their threats.

We can deduce that Moroccan banks will adopt strategies according to their perceptions of fintechs. Thus, 73.3% of the participants in our survey say that their banks will invest in fintechs if there are good opportunities, then the strategy that comes in second place is the partnership with fintechs and the strategy of acquisition and purchase of services offered by fintechs comes last. With these strategies, Moroccan banks align well with banks globally. Thus, according to the World Fintech Report of 2017, 38% of banks plan to invest directly in start-ups that develop banking/finance services 90 and 18.6% evokes a possible takeover. While 29.6% rely on the creation of accelerators and 34% collaborate with training organizations.

CONCLUSION

Whatever the strategy adopted, these two actors bring valuable assets. Fintechs are technology-driven, testing new solutions and exploring what is technically possible, without being tied to existing systems. Applying innovative concepts, they generate a very large number of ideas in a very agile way.

In addition, FinTech entrepreneurs innately use social media technologies to support their work, from idea-seeking to consumers contact after launch. Banks generally have a risk aversion and act much more slowly due to their regulatory limitations and responsibilities. Their banking capabilities allow them to open accounts, keep money, extend credit, and offer other regulated products and services.

In addition, they can add their industry, legal, regulatory, compliance and risk management expertise and give FinTech access to their own customer base. Overall, they can reduce the barriers to entry for fintechs in the financial services sector.

Together, fintechs and banks are creating an ecosystem that enables them to better meet customer needs and close the gap between the services offered by traditional banks and customer demands.

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