Encroachment from technology giants such as Google, Microsoft and Facebook poses a growing risk to the traditional banking model. Yet instead of seeing the presence of these hyperscalers as a threat, an increasing number of financial institutions are embracing partnership and collaboration as the way forward. According to a recent KPMG report, 26 percent of financial institutions are already partnering with one or more technology giants, and an additional 27 percent report planning to forge such partnerships within the next twelve months. This represents a significant shift for the industry.

Tech giants are coming to financial services delivery from a number of different starting points. Firms like Microsoft, Apple and Google are application- and data-centric, entering into financial cloud computing from a technology and data management perspective. In contrast, ecommerce firms like Amazon and Alibaba have a focus on creating a frictionless customer experience, which drives their interest in financial services such as using customer data to better manage credit risk and working capital.

Where the large tech firms excel is in supporting an integrated delivery of services, financial and otherwise, as part of a holistic customer engagement strategy. These firms also have advantages over traditional financial players, such as a lack of legacy, ongoing investment in new technologies, and the knowledge of how best to manipulate data to deliver positive commercial outcomes for clients. Data-centric businesses can also hold and process volumes of data far more efficiently than financial institutions, with this efficiency increasing year over year.

In contrast, financial institutions have strong existing customer bases, which trust them to safely and securely hold their money and their most sensitive data. Working together, tech and financial organizations can make strong plays, such as services that combine elements of the traditional supply chain into a single integrated delivery platform.

Creating opportunity through partnership

What was once seen as a risk may actually present tremendous opportunities for incumbent banks, insurers and asset managers. By collaborating with hyperscalers, financial institutions can shift from a product-centric to a customer-centric delivery model, and investigate new ways to provide personalized services for clients and customers.

When looking at possible collaborations, financial institutions should consider a few areas:

1. **Embrace partnership:** Hyperscalers have the funding, scale and capacity to support and accelerate the transformation of legacy businesses. Further, while big tech firms have been moving into areas traditionally dominated by financial institutions, they are doing so to provide frictionless customer experiences rather than to establish themselves as financial players. Strong collaborative partnerships can result in significant benefits to all parties.
2. **Educate senior leadership**: To fully embrace partnerships with big tech players, financial institutions’ C-suite leaders must first develop an understanding of new and evolving technologies, such as cloud. Only with this clarity of knowledge around critical technologies can leaders best evaluate the opportunities that these technologies present, their potential impacts to business and operating models, and the best strategic direction for the organization.

3. **Consider the impacts to the business model**: Innovation teams need to think through the potential impacts and implications of new technologies on the business model, as well as the opportunities for transformation created through collaboration with hyperscales. Teams can quickly drive success through new services, products and markets, empowered by access to the right data and application programming interfaces (APIs).

4. **Rethink the institution’s data strategy**: Legacy data results in significant costs and potential redundancies. According to recent estimates, up to 50 percent of the cost of managing and storing data could be reduced through working with technology firms or collaborating with fintech cloud providers. This is a significant savings area for large organizations, and also reduces corresponding risks around holding data.

**Creating a new path forward**

The financial services landscape is fundamentally changing. Today’s organizations need to shift to accommodate the opportunities and challenges created by new technologies and evolving customer needs. Part of that shift is a change in mindset: financial institutions need to accept that technology has become and will remain an integral part of financial services delivery. As such, financial institutions are increasingly becoming technology firms.

Organizations’ cultures and operating models must adapt to this new reality. This may mean embracing new routes to profitability, new approaches to customer engagement, attracting and hiring a new type of employee, and more. While these changes will take time, developing strong partnerships with tech giants is a positive step in the right direction that will open up opportunities for greater growth and change in the future.