



Innovating through Fintech Partnerships

Partnerships with fintechs are offering businesses the potential to create faster and cheaper services for their customers. **Mary-Anne Baldwin** uncovers how



Fast-forward a few years and the customer experience will be very different from today. Companies are already gathering data on your transactions to provide a better service. For example, personal financial management tools can use behavioural analytics to prompt you on your spending habits so that you can save money.

"It's a very exciting time for end users, small businesses and corporates. The quality of experience they'll have in five years' time will make today seem outrageously outdated," said **Travers Clarke-Walker**, former Chief Marketing Officer at Fiserv and Non-executive Director at application creation platform, ApplInstitute, and aggregated payments Company, Pollen Technologies.

This is largely due to the surge in financial technology start-ups, or fintechs, which are changing how the whole financial services industry operates. "AI, behavioural analytics, biometrics, trading platforms – there isn't an area in which fintechs can't help," **Travers** explained.

But according to **Travers**, we're not seeing banks suddenly removed from the market because, for the most part, fintechs are offering a hand in partnership rather than rivalry. "The vast majority of fintechs out there are trying to improve what's already going on in the financial service market," he assured.

Through partnerships, large organisations – often hampered by their size – can innovate more freely and quickly. Meanwhile, the fintechs have access to banks' deep pockets, regulatory expertise and large customer bases. While M&A can be a great way

to absorb the talent and intellectual property of other businesses, partnering is typically quicker and cheaper – it's true of banks as it is of other businesses.

Assessing the Market

While London and New York battle between themselves for the title of 'Fintech Capital', start-ups are popping up around the world from Hong Kong to Tel Aviv. The latter had just shy of 4,000 tech start-ups surface during the last 24 months.

"In Sweden, partnerships are going great guns," said **Christian Bartsch**, Partner & Co-Head of the Financial Services Sector Group at international law firm, Bird & Bird. "In the early '90s, its government gave tax breaks to encourage every family to own a computer, creating a strong platform to exploit the emergence of the digital economy, both in the Nordics and further afield."

Supporting this swell of start-ups is up to \$10 billion in monthly global investment, yet according to **Travers** that hasn't translated into revenue. Why? Because fintechs haven't been able to forge enough partnerships with the big businesses that can embed them into the market.

"Large organisations are standing in the sweet shops, looking at all of the sweets and wondering which to choose. There's an enormous array, many of which look very similar to one another, so working out which is best for you is difficult," **Travers** says.

"There is also a nervousness at the senior level about whether they're making the right choices and have the right skillsets."

Finding a Partner

Finding the right partner can be a daunting task. **Travers** advised that the best way to start is by asking what you really want to achieve: "If you have a problem you know you want to solve... highlight that problem to the market and invite specific people in, rather than opening the doors for everyone to show what they can do. The latter model has created some very good ideas but very little execution."

Large players are likely to be focused on improving the customer experience. **Travers** noted: "Most of these partnerships are not about improving revenue for the large financial organisation but about improving the service for its end user, such as by being able to access or analyse data in a way you couldn't before."

While a quick ROI is not crucial to large banks, it often is to smaller businesses, as **Joanne Thompson**, CEO of mobile technology provider Penrillian, explained.

"It's an expensive task for an SME, so the ramp up to annuity revenues is quite critical for us," she said. "We need to ensure we get a rapid rate of customer adoption. So, we're quite wary of the implications of putting all of our eggs in one basket with a corporate and then finding that it doesn't have the will power or focus to get the product to market quickly. We need to make sure we agree common objectives at the outset."

"We're not just partnering for cash, we're looking for partners who can provide access to their existing markets >



and customers, and a big business that is able to collaborate in an agile way. We pride ourselves on being quick to market and are keen to gain first mover advantage, so don't want a partner that might hold us back."

Issues to Navigate

"A variety of things make or break a fintech partnership, such as the availability of capital and talent or the regulatory regime," says Bird & Bird's **Christian**.

Smaller start-ups often don't have the expertise of a larger partner and operate on a different level. For example, procurement can be a problem; large businesses often have rigorous and detailed processes that smaller businesses aren't familiar with, meaning partnerships can fall at the first hurdle.

Another point of disconnect is the legal and regulatory requirements. "We regularly find that the large organisation has a long and complicated contract that the small player just doesn't understand and pushes it to one side because it thinks it's going to be exploited, or it needs revenue so badly it just signs and hopes for the best," noted **Christian**.

"Those cases tend to end badly. We need to explain to both sides the type of contract that is needed to facilitate a successful partnership."

Both parties also need to understand the full risk of cyber security breaches and who is liable; it's an area that IT solutions alone cannot safeguard. "You need to approach it on a multi-disciplinary basis that includes IT, analytics, legal, public relations and insurance," **Christian** warned.

Most importantly, both sides need to assess whether their infrastructure can accommodate a partnership.

"If you're not structured in such a way that it's easy to partner then perhaps you should use your existing large scale partners," **Travers** advised leaders of large businesses. "That can be a particularly successful model, often they already have an array of smaller technology partners at their disposal."

Getting Digital onto the Board

As with any significant change, you shouldn't expect it to happen immediately; cutting through the internal tape can be difficult. This will take strong leadership, regular communication and buy in from the top.

"There are lots of examples of creating your own accelerators, incubators and venture capital funds, each with varying degrees of success, but if you have a CTO at the top of the company they have the license to create their own marketplace," said **Travers**.

Christian agreed, adding that he's seen a rise in the importance of technology at board level, which is crucial for this type of change.

"Over the last 15 years, the perception of banks has changed. I used to visit banks' heads of technology in their dark windowless basement office, now they've got a board level position," he said.

It's essential to build a strong working knowledge of digital into the board, but don't limit how that could be achieved.

Charlie Wagstaff, Managing Director at Criticleye, said: "We've heard much about the merits of reverse mentoring, but what about tapping into a digital native's knowledge first hand in the boardroom? It might be easier for a high-performing millennial to acquire the skillset of a board director than it is for a member of an earlier generation to acquire a digital mindset.

"Having a millennial on the board could expose an organisation to more fintechs and their ideas. Instead of finding a reason not to do it, why not find a way to make it happen?" ■

These insights were shared during Criticleye's recent Global Conference Call on [How to Innovate through Fintech Partnerships](#)

Read more from Travers Clarke-Walker on [Innovation in Fintech](#)

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