FinTechs: navigating the challenges of working with banks

expleo

About Expleo

Expleo is a trusted partner for end-to-end, integrated engineering, quality services and management consulting for digital transformation. We help businesses harness unrelenting technological change to successfully deliver innovations that will help them gain a competitive advantage and improve the everyday lives of people around the globe. We operate in over 25 countries.

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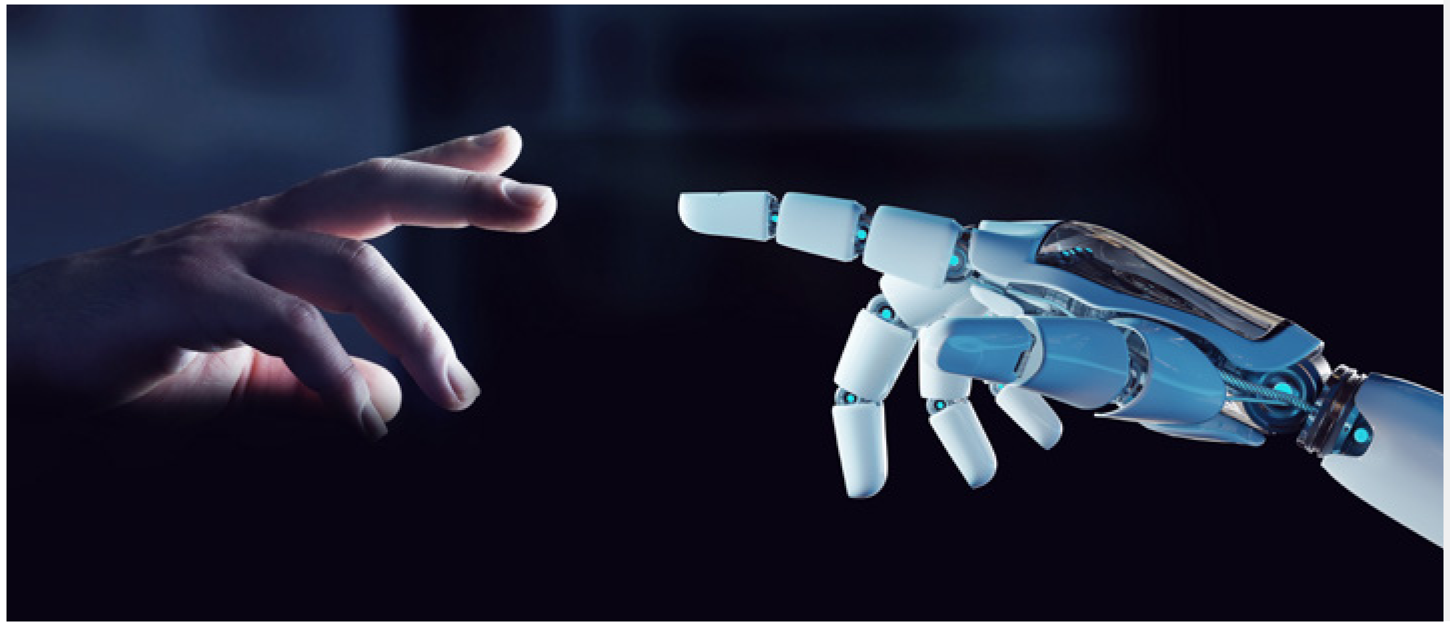
Banks and FinTechs are increasingly in need of each other. For incumbent banks, especially, the adoption of new technology, is business critical in the face of changing customer expectations and increased competition from more agile challengers. For the start-ups, limited audiences and market consolidation is making partnership more attractive than going alone.

But integration is rarely straightforward, especially when it brings two different cultures together. This whitepaper discusses the challenges that FinTechs will face when working with banks, and offers advice on how to navigate them. In particular, we highlight where third-party assistance can help to avoid costly errors or delays in areas such as stakeholder management, compliance, change management and quality.

How to get ahead in the new era of co-disruption

FinTech start-ups and banks are being drawn into symbiotic relationships that – on the face of it – go against the natural order of technology disruption. They ought to sit on two sides of the divide, with one disrupting and the other being disrupted. Yet, the FinTech industry has matured in recent years, creating new business dynamics that call for a more peaceful approach.



What has happened? One key shift is that the banks are catching up. They are building their own technology to get ahead of competition and fast-track innovation. They have assembled teams in-house, which are emulating software functionality to offer an in-branch and mobile experience that is automated and customer-centric. NatWest, for example, was voted best banking app in the British Bank Awards in 2017 and 2018 (although it was ousted by Monzo this year)[1].

All the same, banks still face limitations that FinTechs can solve. Banks are yet to enjoy the same traction with younger audiences, who have different tastes and lifestyles to their core customer base. FinTechs can help them to talk their talk and walk their walk. Traditional banks are also struggling with the cost of re-architecting – not just the technology stack but also their operating model. FinTechs that can help banks to navigate regulation and monetise their customer data may enjoy considerable success themselves.

For the FinTechs, the security of partnering with an incumbent has become more attractive, given the growing number of start-ups and the shrinking number of opportunities. Increasingly, there are more people with answers than there are questions to solve. FinTechs are also finding their ambitions curbed by the enduring dominance of the big high street banks, which still hold the majority share of the audience. By joining forces with the banks, FinTechs have a better opportunity of accessing the global mass market – something they may fail to do on their own.

Are we therefore moving into the era of co-disruption? For example, Lloyds' decision to partner with Thought Machine (TM)[2] , to accelerate and ease the pain of digital transformation, is an interesting indication of where the market is headed. Lloyds will migrate 500,000 customers onto Vault, TM's cloud-native core banking technology.

Major banks like HSBC have made no secret of their ambition to clone new technology where possible.

However, their decision to pair with the Bud app[3] – which will help its customers to manage their finances better by combining data from multiple banks and service providers – reveals their willingness to partner when it's more cost-effective.

ClearBank, the UK's first new clearing bank in more than 250 years[4], aims to compete on price, because its cloud-based tech platforms are not weighed down by labyrinthine legacy systems.

Lower cost and friction remains a powerful blend. FinTechs that can offer this golden combination to banks will find a willing partner.

However, the practicalities of working together are less clear cut. FinTechs are about an idea, which drives how the business develops. They are not used to working with banks – indeed many were conceived as an alternative to banks' outdated systems and services. How can those potential competitors come together to better each other and the consumer? How to make the symbiotic relationship work? Read on.

82 %
of incumbent banks expect to increase FinTech partnerships in the next three to five years

56 %
of traditional financial institutions have put disruption at the heart of their strategy

Source: UK FinTech State of the Nation Report, UK Department for International Trade

1) http://www.britishbankawards.co.uk

2) https://www.lloydsbankinggroup.com/Media/Press-Releases/2018-press-releases/lloyds-banking-group/lloyds-banking-group-enters-into-strategic-partnership-with-thought-machine/

3) https://www.about.hsbc.co.uk/-/media/uk/en/news-and-media/rbwm/171019-hsbc-uk-pushes-further-into-open-banking-through-partnership-with-innovative-fintech.pdf

4) www.clear.bank

What are the key challenges of partnership?

We have identified five major hurdles that need to be crossed before FinTechs can reach the finishing line. All of these bring the threat of rejection, sub-optimal delivery or failure-to-launch. For each, we have also noted how the right third-party support may ease progress.

Challenge #1: How to improve your ecosystem

This may sound obvious, but a five-minute conversation with the right person is better than an hour-long pitch with somebody who can't take your idea forward. With competition increasing, it can help to meet the right person on their terms by getting involved in accelerators and innovation labs. Likewise, you may consider white labelling with companies with stronger networks than your own.

Any proposition must have a market place opportunity that is relevant to the bank. Unless you can talk passionately about the challenge the bank faces, and answer that question with compelling metrics, you're unlikely to catch their attention.

Collaboration with an organisation that already works closely with banks can help secure privileged access to potential partners and give an insight on their pressing issues. They can also help you to articulate the argument and metrics for adoption.

Challenge #2: How to progress within the bank's culture

The two organisations will differ drastically, which can make it hard for both sides to understand how to deliver change. While the technology may be compatible, the context can get in the way. For example, FinTechs may struggle to adapt to the unique aspects of a bank's operating model and culture without a panoramic view across IT, business and systems integration.

Once you have a foot in the door, the temptation is to move into overdrive. Start-up owners are often eager to establish pilots, proofs of concept and go-to-market opportunities, but they can sometimes fail to appreciate the complexity of the bank's engagement model. Slowed down by legacy systems and bureaucracy, banks can lack the internal processes to fast track the embedding of new solutions. In the eyes of the FinTech, they are following a more convoluted route than necessary, but this is due to the complexities of scale, such as many different governance structures and stakeholders. This can be frustrating, but it's also largely unavoidable. Banks work to different time schedules, so FinTechs should prepare to reset their watch.

Experienced market consultants can help to explain how banks make decisions, develop their contracts, their delivery and operating models, whilst providing quality management information on technology and vendors. Understanding the bank's structures, personalities and the potential internal competition can help streamline the processes for reaching the proof of concept stages.

There is potential to align your solution with the bank's roadmap, so both parties understand where your product fits. This is something to focus on in the initial talks, before proof of concept even happens. Ideally, advice can run the other way, helping the bank to get on your wavelength too, so they appreciate your speed-to-market concerns.

Challenge #3:
How to tackle regulation, compliance and cybersecurity

The bank's need for control can feel like overhead and bureaucracy, but those restrictions are there to deliver a high quality, stable product. For example, a request for proposal may appear like an insignificant box-ticking exercises, but failure to fill it in properly can result in rejection, no matter the strength of your solution. FinTechs that underestimate the enormity of milestones or the need to demonstrate the right depth of due diligence, run the risk of losing the confidence of both the regulator and the market.

The barriers to entry have eased for challengers looking to secure a banking licence in the UK, newcomers like Monzo, Atom, Starling and Tandem have emerged to threaten the incumbent hegemony.

However, the Prudential Regulation Authority (PRA), which issues the banking licences, expects to see that applicants have individuals within their target organisation with a deep understanding of how banking works. FinTechs must provide robust evidence that their tech is fit for purpose, differentiated and will address the customer need. FinTechs can also get caught out if they haven't yet built the organisation to include people in the relevant positions.

Compliance needs to be addressed well in advance and with the right level of expertise.

Just because the burden of compliance sits with the bank doesn't mean that FinTechs should ignore it. It helps if you can prove that you are supportive by taking the necessary steps to smooth adoption when the time comes. Having good relationships with regulatory bodies is a good way to do this, and acts as a sign of good faith.

A consultant can help you to identify and deal with potential roadblocks before they bar your path. An advisory firm may also provide experienced people to proxy important positions, so you have a compliant business enrolment, as you build your tech solution. If the banks suspects that your product is unstable, or the architecture is not robust enough, they may choose to retro fit control or structure to make it compliant. This can lead to sub-optimal delivery, or the product may be ditched altogether.

Challenge #4:
How to manage change with structure and agility

Capability modelling, target operating models and process mapping might be lower down on a FinTech's to-do list, but they provide valuable infrastructure for smoother progress. For example, a lack of governance within the ecosystem and processes can lead to poor visibility on the project. Start-ups can end up signing contracts without a real understanding of the detail and potential pitfalls to avoid. This may lead to nasty surprises and tension as the deal advances.

Let's say that a bank decides that it wants to shift from a vanilla to a more customised solution, because it underestimated the business change impact. If your business model can't support that change – and there are no control measures in place – there will be a lack of clarity leading to delays and a potential breakdown in relationships.

The right management consultants will be able to help both sides to prepare for the business change impacts from the merging of two very different cultures. They can take the pressure off FinTechs, by providing contract management services, identifying future data implications, and helping to implement a release management cycle or business-as-usual support model. For the bank, the change manager can help to speed up their delivery and operating models, embedding the agility they need to get the full value from this new technology.

Challenge #5:
How to prepare for scaling up

Securing a life-changing contract can bring challenges of its own, especially if there are no plans in place to help you scale up. The pressure to expand the pilot and demonstrate proof of value as soon as possible can lead to rapid growth that causes your architecture to creak at the seams. Do you have the right people, processes and tools to cope with success? If a bank loses confidence, it can be hard to win back.

The solution design needs to consider the roadmap for target banking clients. This includes how they plan to scale their solutions and their customer base. The FinTech architecture roadmap needs to take into account designing for scalability in terms of the diversity, range and number of clients that they are targeting as well as the individual goals of those clients.

During the design stages of the product, considerations for testing and quality at scale should not be overlooked.

Having a focus on "quality in design" stages will provide confidence to the bank that your technology will be successful at scale.

Quality in design means paying careful attention to how the solution will be tested and proven – if this is overlooked you make it difficult or impossible for the implementation teams to evidence the quality of the solution before it goes into production. This process avoids taking failure into production.

A consultant will help you to develop the right methodology and approaches to integrate technology and scale up at a pace that works for the bank. High performance will rely on operating in a fluid and agile way – something that can only be achieved with well-conceived structures in place. A reliable quality assurance manager can help you to test the integration at different speeds, developing quality frameworks that are holistic and end-to-end, to manage and mitigate risks.

Learn from experience, not your own mistakes

Disciplines such as stakeholder management, compliance, quality management and change management are critical to a successful partnership with a bank. For FinTechs without expertise in these areas – and especially those without experience in the world of banking – the right third-party support can save considerable time and effort.

Entrepreneurs are naturally inclined to take on everything themselves, whether to save money or through confidence in their own initiative. When things go wrong, they can end up calling for a 'white knight' to ride to their rescue, and get the deal back on track.

This SOS moment usually comes after a period of pain. Therefore, it may prove more cost effective to engage a 'black knight' that can help you navigate around the most common pain points in a proactive way. Why learn from your own mistakes, when you can benefit from another's experience?

Further information

Expleo is the leading global specialist in quality for financial services. Our consultants identify and mitigate business risk in technology-led transformations, using standardised methodology, industrialised automation solutions, global delivery and deep domain knowledge. With Expleo as their trusted partner, clients will embed continuous quality to drive digitalisation and innovation.

We have the insight and expertise to assure the processes and technologies across the entire financial services domain, supporting millions of daily banking transactions in:

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- Corporate banking
- Mortgages and lending
- Cards and payments

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