WINNING THE FUTURE THROUGH FINTECH PARTNERSHIPS

How incumbent financial institutions and fintechs can forge successful partnerships

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To better understand what might make such collaborations more successful, we (with our long history of working as an advisory partner to large organisations and start-ups in this field around the world) set out to discover what the essential elements of a harmonious relationship might be. And it is fitting that this report about the need to create successful alliances itself grew out of a collaboration with Copenhagen FinTech. Copenhagen FinTech is a non-profit organisation with a goal of developing the Danish capital as ‘one of the leading fintech hubs in the global financial services industry by supporting and catalysing the next era of technology-led corporate and start-up innovators’.

We partnered with Copenhagen FinTech in March 2018. With their support, we interviewed executives with experience of such partnerships. We spoke to people in the senior management of Denmark’s top 50 banks and insurance companies (representing the top 45 per cent in revenue terms), as well as CEOs from Danish fintech start-ups. Through our discussions, we set out to investigate the general fintech hype, as well as attitudes to – and experiences of – collaborations.

Traditional organisations like banks and insurance companies have lacked the technological skills they need to keep pace, let alone get ahead. Smaller, nimbler competitors, less bound by internal and external bureaucracy or adherence to official rules and formalities, have moved in on their territory with apps and products that give consumers the experiences they want.

We believe that established corporates who solve the dilemma of how to collaborate successfully with fintechs will win the market. If they work out how to identify the capabilities they need, they will obtain the competences they require to thrive.

Our findings show – maybe not surprisingly – that corporates must make strategic considerations when venturing into a partnership. They must proactively identify any capability gaps on both sides and close them. Corporates need to think hard about which partnership model is right for them and whether to build what they require in-house, buy a start-up or work jointly with one. Crucially, the fintech partner must be given a mandate to make important day-to-day decisions so the project does not become bogged down by corporate bureaucracy.

Our interviews allowed us to develop insights into what drives such collaborations, the areas where they might go wrong and how to get the best from them. The good news is that, when piecing together the lessons from those that succeeded, it becomes clear there is a way to make such partnerships work.

Our findings will be of interest to large financial organisations, fintech start-ups and regulators, who must reinvent the notion of traditional financial services for a world that is rapidly changing.
INTRODUCTION

From contactless payments to real-time bank balances, fintech has already transformed banking. Mobile payment revenue worldwide in 2015 was $450 billion and is expected to reach more than $1 trillion in 2019.1 Smartphones mean people can be in touch with their bills, balances and statements all the time, and 40 per cent of the world’s population will own such a device by 2021.2

It is no surprise that, due to the technological development in the financial sector, a lot of banks and other large incumbents in the financial sector are seeking partnerships. Large corporates in the financial sector are looking to partner with more agile and technologically savvy start-ups to keep ahead of their competitors.

The challenges the industry faces are all around us and provided the contextual background that drove our research. Anyone wanting to see how the applications of fintech are transforming finance need look no further than the Nordic countries, which are among the world’s fintech leaders.

In Sweden, Swish, a mobile payments app created by six organisations and the central bank, is now used by more than half of the population and is making inroads into business transactions. Vipps, the most popular payment app in Norway, is used by over 76 per cent of locals, while in Finland ePassi is accepted by more than 25,000 merchants. Denmark’s Danske Bank launched its MobilePay application in 2013, and since then more than 33 per cent of Danes have used their smartphones to transfer cash or buy goods with MobilePay.

The collision of tech and finance is changing investment strategies. Globally, the fintech sector raised $41.7 billion in the first half of 2018, a record total.3 The Nordic region has rapidly emerged as a top-tier tech hub in Europe, and has so far created 12 unicorns, with a combined value of $69 billion. It is Europe’s fourth top-tier hub in terms of venture capital investment after the UK, Germany and France, and ‘is the Continent’s premier’ location for venture capital invested per capita.4

Danish companies are fast expanding into other areas beyond personal banking. For example, insurer Tryg has invested in Undo, a challenger mobile app that offers personalised insurance packages to millennials, while Copenhagen start-up Pleo provides payment cards for company employees that track their expenses spending in real time.

This shake-up of business models is leading to a shift in how businesses interact with modern customers. For example, insurer Tryg has invested in Undo, a challenger mobile app that offers personalised insurance packages to millennials, while Copenhagen start-up Pleo provides payment cards for company employees that track their expenses spending in real time.

The latter being more in charge than in previous generations.

Financial businesses are also being impacted by the changing regulatory demands. The European Union’s PSD2 directive aims to increase access to financial services and transparency for customers from both older players and new banks and businesses, while the European Union’s MiFID II framework, which aims to improve security for investors following the 2008 financial crisis by limiting over-the-counter trading and access to dark pools, is creating a tough new environment.

These long-term regulatory pressures will require big organisations to redesign their data infrastructure and obtain a holistic view of their clients. They must find technologies that will allow them to provide the best service at the lowest cost. To do this, they’ll have to co-operate with those firms or individuals that will deliver the optimal solutions they need.

Regulators, too, need to respond – both to develop their own resources and to learn how new collaborative models will work in the markets they monitor. We’ve found that in the UK a key element of regulation in the 21st century will be the need for watchdogs to be far more comfortable with trialling new approaches and techniques, as well as being an agent of change in their industry rather than a burden.

Handling and overseeing such changes will require quite a different style of leadership, and the Danish Financial Supervisory Authority (FSA) is already seeking technological responses to this new environment. For example, we worked with the Danish FSA to develop a ‘sandbox’ portal where companies can experiment with new products and services to ensure they meet compliance requirements.

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Fintech start-ups have contributed substantially to the growth of local economies. The number of jobs in Copenhagen alone increased by more than 1,200 between 2015 and 2017, with about 800 new jobs being created in fintech start-ups since 2015, according to research published last year. Given the rate of investment, the total amount of jobs in the Danish fintech sector is likely to have risen further in the intervening period.

Respondents told us that both sides in partnerships have something the other needs. Corporates bring an established customer base and investment capability, while fintechs have a strong understanding of the consumer, great ideas, simple solutions and the agility to test and execute them quickly. However, the fintechs we interviewed told us they often lack direct access to their desired customers, along with the capital they need to grow, and they can struggle to enter markets or scale. Respondents also let us know that, in some cases, fintechs do not have the necessary understanding of the regulatory environment they need.

But, even though we identified a strong urge from both sides, such collaborations often fail. The reasons that we identified for this lack of success include a rush to make an announcement and sign a deal, a lack of a plan for end-to-end collaboration and no properly mutually defined outcome.

This report aims to:

- give corporates and start-ups a fuller picture of the requirements needed to enter into a fintech partnership by reporting the lessons and observations those who have formed, or are considering, such relationships have told us about. Both sides should be better equipped to embrace the differences between themselves and fintechs in terms of corporate thinking, culture and ways of working after reading it.
- assist fintech start-ups to better pave the way to collaboration by taking time to understand their prospective partners before committing to a deal. By asking the right questions, and understanding how to navigate the corporate environment, the risk of hitting a wall early in the collaboration can be reduced dramatically.
- provide regulators with greater understanding of the challenges corporates face when undertaking fintech collaboration, learn how fintech start-ups think when entering into a venture with a large bank and understand the incentives of a corporate who partners with a young fintech.

Keys to success include looking for the right capabilities to meet your needs, ensuring a smooth transition into the partnership after signing an agreement (the so-called post-honeymoon period) and deciding on the right collaboration model – whether to borrow them, build your own in-house capabilities or acquire the skills you need by buying a newly established business.

Whether you are a big institution or a small start-up, it is essential you fit all the right elements together, and that is what we’ll help you do.
Through our interviews, we learned that one of the key reasons corporates and start-ups want to form joint ventures is so they can prosper. What we see is that, currently, incumbents remain ahead of their younger fintech competitors because of their size and reputations, while market entrants lack the client databases and financial investment capacity of older businesses.

The rise of fintech has identified needs that more established participants are finding difficult to deliver. They need to find better ways to be in control at every consumer touchpoint in a transaction, from the moment the customer starts to the moment they finish. However, respondents in large organisations told us they have been challenged by a lack of the essential competences they need to make the necessary developments, burdened as they sometimes are by heavy regulation and lumbering legacy IT systems.

Further, we identified that fintechs have equally realised that there are advantages to be gained from partnering with established brands and are often eager to venture into collaborations in a quest to increase their customer pool and to help them scale faster.

However, respondents told us that both corporates and fintechs need to undergo a process of mutual education and onboarding to make the most of the potential such partnerships offer.

Based on what respondents said, we have identified the nine capabilities that they feel are necessary to innovate successfully in the financial sector and that provide a foundation for working together.

These nine capabilities are illustrated in Figure 1, and are further elaborated in the following pages.

### How to spot – and overcome – the differences in culture and capabilities that may obstruct successful collaboration

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Both the fintech start-up and the corporate company need to be willing to stretch and take chances.

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**CHIEF MARKETING OFFICER**

**LARGE DANISH BANK**

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### Look at what you want in a partner and learn to think differently

1. **How to spot – and overcome – the differences in culture and capabilities that may obstruct successful collaboration**

2. **Focus on what you want to achieve and the journey of getting there, not a headline-making deal**

3. **A good fit? How to choose the right collaborative model**

Figure 1: A pattern of nine capabilities, which are essential for working with fintech, reoccurred throughout the interviews with corporates and fintechs.
Good media coverage is always a boon to any bank or start-up, and a fintech collaboration is a positive story for both parties. Respondents, particularly on the fintech side, felt that a greater emphasis is often put on the activities leading to a signing date, which can be celebrated both internally and externally, rather than what will happen afterwards.

They also told us this lack of attention to common goals – and thus the prerequisites needed for a successful collaboration – usually gives rise to complications in the ‘post-honeymoon’ phase, when the partnership is turning into a day-to-day, nuts-and-bolts operation after the wider fuss has died down.

The journey towards a successful collaboration, our respondents said, can be divided into three phases, each of which brings its own complications.

Phase 1: Identify the partners you want to work with
Selecting the most suitable partner is the first step to a successful collaboration.

The risks of doing this badly include:
• little or no alignment is made with respect to what the expected outcomes of the collaboration may be
• knowledge gaps, such as on regulation and customer experience, are not addressed, which causes misunderstandings and can threaten the collaboration
• differences in vocabulary and culture can cause confusion, misunderstandings and delays.

Phase 2: The big build-up to signing a deal
Everyone wants to sign on the dotted line, but both sides need to make sure they’re doing so for the right reasons.

The risks of doing this badly include:
• fintechs can be overwhelmed by procurement departments’ many requirements and high standards – linked to due diligence procedures – and may be put off by the amount of time it takes to greenlight the project
• a lack of mutual trust if objectives and intentions are misaligned
• difficulty in transferring proof of concept from pilot to a responsible department if corporate ownership has not been agreed or there is a lack of buy-in.

Phase 3: After the honeymoon is over...
Fintechs want to grow and corporates want to make a profit, so ensure you understand and work towards mutual goals.

The risks of doing this badly include:
• the project will drift if no clear performance indicators for the collaboration have been set
• lack of anchoring within the corporate organisation, such as no clear leadership from a responsible department head or sponsor, can hamper a fast-working fintech
• tight control of resources in large organisations can leave no room to make the developments needed or slow time to market.
A good fit? How to choose the right collaborative model

Respondents in large organisations felt it was a challenge for corporates to assess the best way to gain the capabilities they want. Should they buy a start-up, set up a partnership or develop an in-house product? As a result, respondents told us that some corporates enter into partnerships prematurely, pressured by news of competitors doing the same, while others may see partnerships as a quick way of sending a signal to investors, clients and rivals that they are on the ball. Before embarking on such a course, you need to reflect on your reasons for pursuing a fintech collaboration.

Our research revealed six questions our respondents had either asked themselves during the process of forming a collaboration or which, in hindsight, they would ask if they were to do it all over again.

1. What is the motivation of both parties for entering into a fintech collaboration?
2. What is the purpose and end goal of the venture?
3. What brand value or benefit might be achieved by working together? Equally, what are the risks to your reputation if it goes wrong?
4. What is the compliance risk?
5. Do corporates risk damaging their own products? Do start-ups risk losing the edge that makes them special?
6. Is there a risk the corporate culture could stifle the entrepreneurial spirit it wants to instil?

Filling in the missing resource gaps in a decision tree like Figure 2 can help corporates assess their capability gaps and how best to close them. Further, the ‘pros/cons’ table seen on page 16 can be used to assess some of the factors to consider with each option.

Figure 2: Decision tree adapted from Build, Borrow, or Buy: Solving the Growth Dilemma (Harvard Business Review Press, 2012), by Laurence Capron and Will Mitchell
Rushing into a relationship without thinking through the possible consequences is a recipe for disaster. It is better to make the right progress on the right project than go too fast and in the wrong direction on your fintech collaboration – and end up making no progress at all.

Our respondents’ main message is it’s important not to concentrate on signing a press-worthy deal just to meet a reporting deadline but to take time to work out exactly what capabilities you need and identify the right collaborator and collaboration model.

One of your foremost considerations should be to choose the most appropriate partnership template for your needs – whether to buy, collaborate or design and build what you want.


don’t waste time, use it wisely

We need to protect ourselves and our brand. The headline will be ‘corporate loses costumer data’, even if it’s the fintech who messes up

CEO LARGE NORDIC BANK

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|       | SLOWER TIME TO MARKET           |
|       | TAKES UP IN-HOUSE RESOURCES     |
|       | POTENTIALLY LACK OF SPECIALISED KNOWLEDGE IN-HOUSE |

Figure 3: Pros and cons of the build, borrow, or buy decision tree
Large incumbents often only realise they lack the capabilities to develop services or grow new business opportunities when they look to work with new technology or target new, digitally native customers. And it is not hard to see why.

Financial businesses, in many ways, still operate on models that long predate the digital era. They must also adapt to the needs of younger customers, who are replacing older clients who may have been happy with existing service models. In 2008, 61 per cent of Danish people aged 16 to 74 used online banking. By 2016, that number had risen to 88 per cent.4

Younger consumers are ‘born digital’ and can interact simultaneously across dozens of digital platforms. They expect alerts, updates, real-time balances – and their demands will increase in line with their expectations that technology will deliver their wants. Our interviewees said changing customer demand is a key driver of the need to collaborate.

Preferably there should be one person within the fintech start-up with deep knowledge on the fintech sector to make collaboration work

CHIEF MARKETING OFFICER
LARGE DANISH BANK

But there can be a failure on both sides of these relationships to grasp the other’s knowledge gaps. Our interviews revealed that a vital part of the journey towards a collaboration should be a gradual building of the awareness of each party’s skills so they can jointly develop the nine capabilities we identified in section 1 as essential for working with fintechs. This process will also help partners to choose the final model they will adopt.

Who has what? Focus on the capability gaps and adapt

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Use tools to set expectations

We have identified some specific tools you can use to align your joint expectations, such as a ‘need/want’ matrix that corporates and fintechs can input what they want to achieve from the collaboration. This helps to clarify what it is each wants to gain and allows them to set a common goal, instead of working towards different or muddled ends.

The fintechs we interviewed told us that many corporates fail to realise that a partnership with them is very different from working with an organisation of their own size. Building an environment of collaboration within the more relaxed habits of fintech workers is outside most banks’ area of expertise. Fintechs, for their part, may not be used to the rigid practices of financial companies.

Time to get on board

Both sides of the partnership need to become knowledgeable about the other if the relationship is to work. This is a two-way process, during which each side should gain valuable skills. Key learning areas are likely to include:

Corporate needs
• onboarding to learn how to work with a younger, more agile and informal workforce
• to provide leadership and allow the project head to make day-to-day decisions.

Fintech needs
• education in regulation in the financial sector and corporate governance
• onboarding in how large organisations work.

To solve this conundrum, both sides need to go back to school. Respondents mentioned the need for a two-way onboarding process that would help overcome potential capability gaps. Corporates should focus on learning how a young, informal and agile work culture operates, while providing firm direction on the project’s objectives, goals and delivery. In return, start-up teams would learn about regulation and governance matters, as well as undergoing onboarding about how the corporate world works.

Figure 4: Own adaption based on Carroll diagram

![Carroll diagram](http://www.teachingideas.co.uk/sites/default/files/styles/718w/public/carrolldiagram_1.jpg?itok=NaCrRntA)
Pinpoint the knowledge and mutual expectation gaps

Identifying the need to develop an app, service or digital approach to meet consumer wants might be the necessary first step in the collaborative process. But our respondents told us that pinpointing the knowledge gaps on both sides of the partnerships – and closing them – is crucial if the collaboration is to be a success.

One important thing we learned from our interviewees was that many corporates do not always know what they are looking for and can seek partnerships for their own sake rather than to gain a specific capability.

A directed, measured approach is more effective than just blind dating and will ensure time is not wasted. It will also help to identify what both sides are looking for in a partnership by, for example, setting criteria about what they are looking for and over what time period they wish to find a collaborator.

In every case there will be the question of the optimal model for collaboration. Interviewees in our research frequently commented that potential partners must be aware of the need for a risk assessment, have an appreciation of the level of specialised technology that will be needed and a realistic estimate of the total cost of the venture or ownership.

Three lessons to bear in mind

Fintech partnerships need careful thought before you embark on one. Throughout the identification and pre-signing phases, it is important to remember the following points:

- do not initiate partnerships for the sake of partnerships
- consider which capabilities you are looking for
- take a strategic approach when acquiring the capabilities you need.

SPEED DATING MIGHT NOT BE THE WAY TO GO

Careful weighing of pros and cons can help to determine the most appropriate model for your project and organisation. Tools such as the Carroll diagram shown in Figure 4 can help to evaluate your requirements. When there is a clear identification of what the need is, it is easier to make the final decision about whether the corporate should enter a partnership, acquire a fintech or build technology itself.
So, the partnership has been agreed, the deal signed and the marketing department has had a field day, but now the real work begins. And this is when fintech respondents told us that things could start to go badly wrong, because there is a big risk the organisation may lose interest in the venture post-signature, especially if they have taken their eyes off the ‘prize’ of their objective or entered the collaboration for the wrong reasons, such as a box-ticking exercise for the annual report. If this is the case, then the fintech will find it hard to produce anything worthwhile.

A lack of anchoring and ownership within the organisation was something fintech start-ups told us can be particularly problematic. For example, they did not even know who to email in the corporate or what the proper reporting route was.

As we have shown, the road to a successful collaboration falls into distinct phases: identification, signing and post-honeymoon. Important as each stage is, participants must maintain a focus on the final goal throughout the entire process and create an end-to-end plan for collaboration.
Map your way to success

Based on the comments from our respondents, we have mapped in Figure 5 three phases, using the phases of PA Consulting’s change framework, ‘Make it essential’, ‘Make it ready’, ‘Make it happen’ and ‘Make it stick’. This demonstrates how to structure the end-to-end anchoring of a collaboration over the following phases.

Our respondents told us there is often a misalignment of goals between corporates and fintechs, and that clear communication and agreed outcomes in the early stages are crucial for success. An explicit alignment of objectives for the collaboration should be a primary goal, along with a staged plan of how to get there.

The partnering bank’s focus on the collaboration stopped once we had signed the agreement. There was a lack of anchoring and a lack of clear ownership within the organisation.

CEO
FINTECH START-UP

Figure 5: How to plan for end-to-end collaboration?

FOCUS ON YOUR FINAL OBJECTIVE

Without a sharp focus on your final objective, and a staged plan of how to get there, you won’t achieve your goals. Both your planning and objective should be regularly reviewed as milestones are reached. Whoever leads the project, whether they are from the start-up or the corporate side, should be given a clear mandate to lead. Their teams need to be able to fail fast and move on without having to get a green light from senior management at every obstacle.

All participants must focus on choosing the right project, on both sides buying into shared values and goals, and on creating the right partnership model. The lack of focus on these issues, especially after the signing, is a common pitfall that must be overcome.

After all, you don’t want to invest a billion dollars and get nothing in return.
SUMMARY

Financial businesses cannot avoid change. Now is a good time to capitalise on the rise of fintech and find partners to help take your customer services to the next level while meeting ever-changing regulatory hurdles.

However, the kind of transformations that financial businesses need to make will take time and adjusting may be hard for many. Corporate buy-in needs to come from the top and large organisations will need to provide firm, delegated leadership and a top-down strategic approach to fintech collaborations.

The changes they need to make are likely to be cultural as much as technological – more ‘anti-corporate’, with an emphasis on failing fast and moving on, rather than preserving a culture in which failure is to be avoided at all costs.

All businesses need to develop if they are to thrive and survive. The need for transformation is urgent and now is the time to start that journey. Our interviewees have told us that there is a definite, mutual desire for partnerships, and that there is a way they can get closer to making them work.

Those financial services companies that overcome the obstacles to forming these relationships will be the ones who’ll win this race.

The three key takeaways from our interviews are:

• onboard and educate each other to avoid cultural and capability gaps
• create an end-to-end plan for collaboration
• select the right collaboration model – buy, borrow or build.

ACKNOWLEDGEMENTS

We would like to thank all the interviewees for their time, as well as all the people involved in the survey. We appreciate the time and interest you have taken in the survey.

In our study we interviewed top management in top 50 banks and insurance companies in Denmark, where our sample represents top 45 per cent revenue. Further, we interviewed CEOs from fintech start-ups in Denmark to get perspectives from both sides. Through our interviews, we set out to investigate the attitudes and experiences concerning fintech hype in general, challenges and opportunities of fintech collaborations, capability challenges and fintech strategies.

Also, a big thank you to Copenhagen FinTech, who reviewed our findings and identified a broad number of interviewees in the market.
Martin is a partner in PA’s global financial sector organisation based in Copenhagen. He has more than 10 years’ experience as an advisor within strategy, design, innovation and execution advisory, including for a majority of tier 1 banks, insurers, pensions and payments firms.

Martin is driven by a passion for fintech. This includes key roles in Copenhagen FinTech, innovating and designing fintech products, and mentoring fintech companies on strategy, leadership and funding, as well as being utilised by regulators to improve the conditions for fintechs. Martin is considered a thought leader in the sector, not least for making effective fintech collaboration a winning formula for established financial companies.

Nicky has over 20 years’ experience helping ambitious leaders design and implement the sort of business and technology transformation that generates new commercial opportunities. He typically brings his expertise into play as an executive advisor on innovating business models and new ways of working under a digital agenda.

Nicky is a habitual coder and techie at heart and is driven by a sincere passion for connecting the dots and bringing the right people and technologies together. Besides serving on several boards in established enterprises, Nicky also provides pro bono mentoring and advisory services to several start-ups within the fintech and ImpactTech scene.

Søren focuses on helping clients better understand how insurtech, IoT and big data will impact them in the future. Having worked with both large organisations and start-ups, he is driven by how partnerships can succeed as a strategy.

Søren works with financial services clients on strategy, innovation, operating models and business design. He focuses on innovation management and how to drive innovation from invention to commercialisation, as well as innovation strategy, structure and culture.

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About PA.

An innovation and transformation consultancy, we believe in the power of ingenuity to build a positive human future in a technology-driven world.

As strategies, technologies and innovation collide, we turn complexity into opportunity. Our diverse teams of experts combine innovative thinking and breakthrough technologies to progress further, faster. Our clients adapt and transform, and together we achieve enduring results.

We are over 2,600 specialists in consumer, defence and security, energy and utilities, financial services, government, healthcare, life sciences, manufacturing, and transport, travel and logistics. And we operate globally from offices across the Americas, Europe, the Nordics and the Gulf.

PA. Bringing Ingenuity to Life.