Sustainable Innovation Through Partnerships in Financial Technology

by Chad McCloud

In the fast-paced world of FinTech, partnerships matter a lot. Getting them right matters even more.

Banks and payment processors often compete by partnering with technology innovators. Improving the ability to sustainably forge and run partnerships, however, is an essential part of achieving their growth goals.

Banks and payment processors are taking a savvy approach to growth in the highly dynamic financial services industry. How dynamic is the environment? Incredible innovations are sweeping the industry—lending solutions such as LendUp, wealth management platforms such as Betterment, B2B payment solutions such as Aria Systems, and peer-to-peer payment solutions such as Venmo.

Start-ups are also finding the fuel they need to innovate. Venture capital investment in financial technology start-ups rose more than 600 percent globally over the last four years.[1] Client expectations are set ever higher by non-traditional financial players such as social media companies: Facebook, for example, now offers payment capabilities in its "Messenger" service. And with 10–40 percent of bank revenues at risk over the next 10 years,[2] large financial institutions are feeling the pressure to continuously innovate.

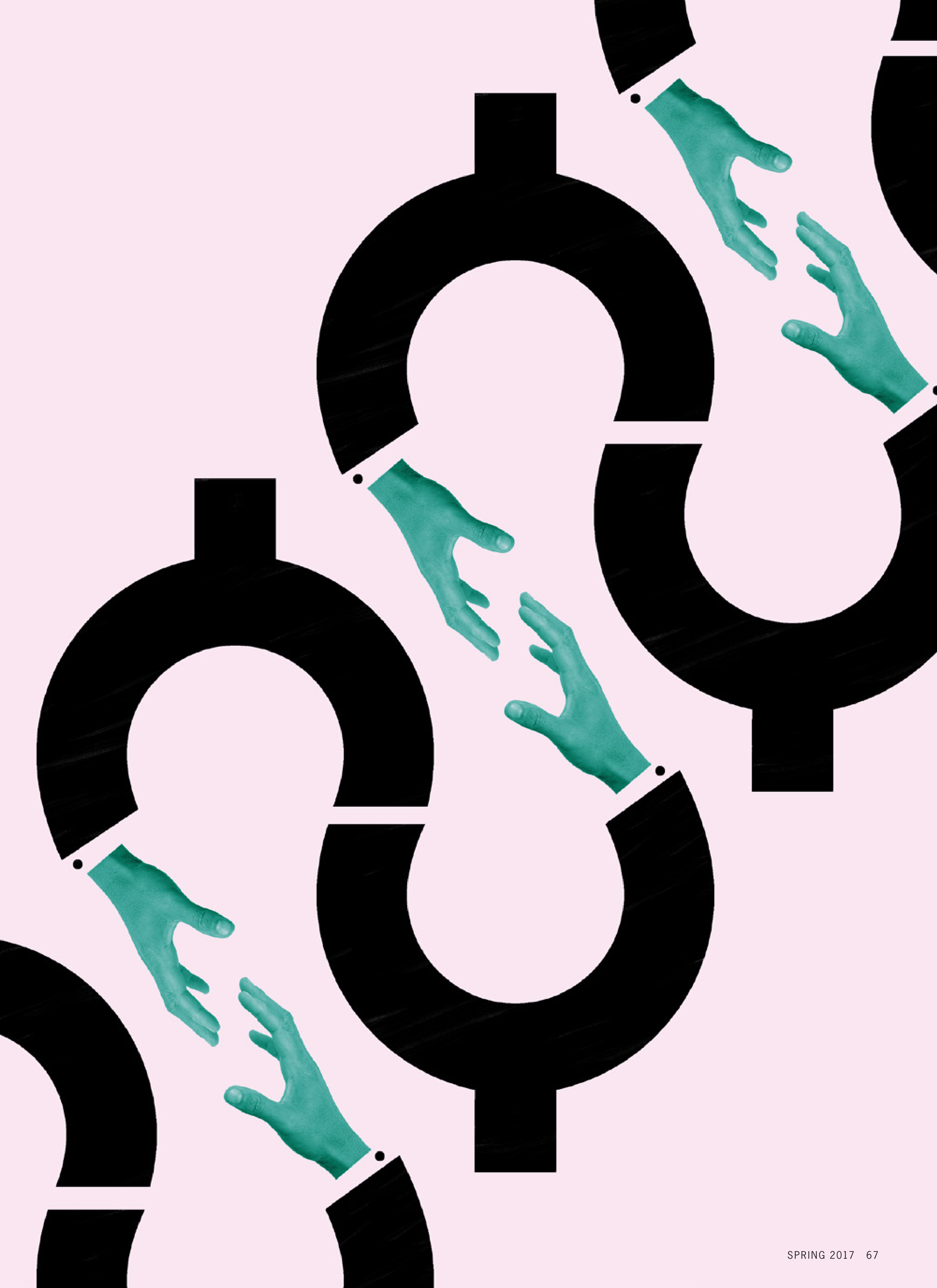
How savvy is the approach they're taking? Now, more than ever, banks and payment processors are reaching for growth goals and forestalling the threat of disintermediation by partnering with technology innovators to help build new capabilities themselves, or by acquiring start-ups. Larger financial institutions can access new innovative solutions from start-ups in a fraction of the time it would take to build products internally. Many of these new solutions are built with the elegance, the functionality, and simplicity for which start-ups are famous.

Larger institutions also have the flexibility to choose and integrate with the best new product providers in the market, often developing products right "out of the box." Through acquisitions, these institutions can test and adjust without fully committing, and continue to focus their internal development efforts on core products.

Technology innovators benefit by gaining instant access to a customer base that would otherwise take significant time and capital to reach. They accelerate growth, become established players in the market, and increase their valuation by multiples. And some choose to keep their growth options open through partnerships, rather than being acquired. Partnerships are now integral to the overall growth strategies in financial services.

Partnerships, however, are anything but easy. When it comes to building solutions internally or acquiring new companies, large financial institutions have structured, repeatable methodologies. However, when it comes to partnerships, we at Jabian have observed that many financial institutions have room for improvement. They don't clearly define key decisions or make them at the right time. They miss windows of opportunity. They don't anticipate regulatory hurdles, which slows the process. Partnership investments lose their priority and, thus, their momentum. Institutions neglect the need for change management strategies, which undermines adoption of the solution. Partners are often ill prepared to handle investments beyond the contracting phase. Improving the operation of partnerships is essential to achieving a bank's or payment processor's goals. We at Jabian have identified specific challenges that could dictate the success or failure of a partnership.

These four insights should better prepare banks and payment processors for the road ahead.



INSIGHT I

Who is accountable for the customer experience?

In many cases, large financial institutions "own" the customer relationship. They have an established brand in the marketplace, they serve core client needs, and they fulfill customers' high expectations related to the security of their money and their financial transactions.

Technology innovators, on the other hand, tend to ride on the leading edge of customer engagement. They design products that captivate the customer with simplicity and intimacy, but sometimes without regard to the broader customer relationship and experience.

The success of the partnership, especially in revenue-sharing models between the partners, is dependent on a customer experience that drives understanding, use, and loyalty. We have observed that prospective partners rarely define and agree on a definition of the customer experience in the contractual stages. That leads to complications between partners who likely have no history of working together.

How should the customer access the new product? Customers expect to be "known" through the entire experience. But have both companies agreed on what critical customer information should pass back and forth? How much will the technology innovator differentiate its product to meet the financial institution's expectations for look, feel, and functionality? Does the financial institution trust the technology innovator not to damage its customer relationships with a poor user experience—or, worse yet, by acquiring those customers later? When the experience goes wrong, who is on point to respond quickly to solve the problems? Answers to these questions can expose any potential alignment gap between partners in advance.

Those in the industry who have built successful partnerships address these critical customer experience decisions in the contract stage. After the contract is established, large financial institutions may lack the internal support to mobilize resources for major design or operational changes.

KEY TAKEAWAY
Identify the key customer experience decisions and jointly develop solutions before the contracts are complete.

INSIGHT II

How do you prepare for regulatory compliance?

Regulatory standards in response to the mortgage industry collapse, such as those established under Dodd-Frank in 2010, help maintain financial integrity in the United States. But regulatory standards have come with extraordinary cost: more than $70 billion for the nation's six largest banks since the financial crisis.[3] Large financial institutions have drafted weighty playbooks detailing the steps required to comply with government regulations; they demand that partners follow the same protocols.

From the financial institutions' point of view, they are helping small companies enter the payment world. Technology innovators who engage in successful partnerships understand the regulatory world; they want to comply.

But innovators are often surprised by unexpected hurdles—from installing cameras at the front door to limiting who and when personnel can enter the office. The conditions that allow start-ups to be nimble innovators often collide violently with today's regulatory reality. Successful innovators that we encounter respect the regulatory hurdles, but less mature partners are simply not prepared for the height of those hurdles.

Technology innovators must prepare for the likelihood that compliance will take more time, attention, and capacity than they expect. Both parties in the partnership can launch new solutions faster if they have a clear understanding of what's required, which includes planning adequately for regulatory compliance. Innovators should also prepare to invest more in such compliance, which may push investment in new product features to the back of the line.

KEY TAKEAWAY
Bring transparency to compliance standards, and actively manage a compliance plan with team members who have both the accountability and authority for execution.

INSIGHT III

Technology integration: easy or hard?

When problems arise with partnered solutions, the information technology team typically takes the blame. Some CIOs say technology integration is becoming more manageable, although key decisions influence the complexity. Taking an API-driven approach gives a financial institution more control over the user experience, but costs time and money. A plug-in approach gets the product to market faster, with lower costs for launch and upgrades, but sacrifices the integrated user experience.

Looking deeper, however, the root causes of technology challenges have less to do with the complexity of the technical integration, and more to do with how the work is prioritized. Capital spending in any company is limited. Partnered solution investments compete with hundreds of other investment opportunities. Technology innovators typically use Agile development methods, which can cause misalignment if large financial institutions use waterfall or hybrid development methods. Jabian has found continuous funding models to be effective in enabling incremental improvements over time.

We have also observed that technology integrations may take the blame for a lack of investment in change management. To ensure that a partnered solution is embraced, the partners must invest in educating customers, training salespeople and channel partners, and training internal support people. As change management acclimates customers, partners, and internal staff to the solution, the partners generate better ideas and communicate through the feedback loop of continuous improvement. Technology integration is becoming less complex, but the importance of a fully funded integration has increased.

KEY TAKEAWAY

Define how technology teams will align early in the partnering process. Properly fund change management efforts to drive adoption.

INSIGHT IV

The partnership is formed, then the world changes. Now what?

When partnership contracts are established, the product solution is clear. All parties understand what the new solution generally can and can't do. Negotiations are based on the tangible reality of that functionality.

After the partnership is formed, however, customers and market conditions demand new enhancements. The question of how to prioritize—or whether to ignore—new features, functionality, and investments becomes more heavily debated. A partnership's ongoing product investment can lead to challenges in at least three areas.

The first is product differentiation. Technology innovators in growth mode typically want to partner with multiple financial institutions—not just one. When an institution integrates a partner solution with its core products, how does it ensure that the partner differentiates the solution from those it might offer to other institutions? Partners must agree up front on a clear differentiation approach.

The second challenge is the sustainability of the partnership. What does a technology innovator do when competing initiatives inside large financial institutions leave its products deprioritized or forgotten? Sustaining the partnership requires good planning, continuous communication, and management—along with solid commitment from the right levels within both organizations.

The third challenge is the product functionality roadmap. When technology innovators receive multiple (and sometimes conflicting) product feature requests from multiple financial institutions, which get prioritized? And how are conflicting priorities resolved? Who owns the product roadmap, anyway? Structural components such as shared goals, a transparent funding model, clearly defined governance roles and responsibilities, defined success metrics, a shared product roadmap, and a business review cadence can all help navigate the complexities of continual product improvement.

KEY TAKEAWAY

Create a sustainable plan to manage and evolve the partnership and the solution beyond the contract stage.

CONCLUSION

Partnerships may be the catalyst that sparks financial services innovation, but building sustainable capabilities to execute partnerships effectively is an essential part of the equation. If partnering companies have different cultures, they view the world through different lenses. Those differences can lead to unwanted conflict and misaligned priorities if they're not identified and managed up front.

Without partnerships, however, large financial institutions risk falling behind in a competitive marketplace. We at Jabian believe partnerships in the financial services industry are a risk worth taking. Investing in building well-managed, sustainable partnerships makes all the difference. ◥

Chad McCloud
chad.mccloud@jabian.com

SOURCES:

1 The Pulse of FinTech, Q1 2016, Global Analysis of FinTech Venture Funding, KPMG International and CB Insights (data provided by CB Insights), May 25, 2016

2 "Cutting through the noise around financial technology," McKinsey & Company, February 2016

3 "The Regulatory Price Tag: Cost Implications of Post-Crisis Regulatory Reform," Federal Financial Analytics Inc., July 30, 2014

PARTNER STRATEGY			PRODUCT AND EXPERIENCE DEVELOPMENT		
SET STRATEGIC OBJECTIVES	IDENTIFY NEEDS, GAPS, AND OPPORTUNITY	DUE DILIGENCE AND FIT	DEFINE OPERATING MODEL	DEVELOP PRODUCT AND EXPERIENCE	ESTABLISH INFRASTRUCTURE AND SUPPORT
Assess market/ customer needs	Assess internal capabilities for solution	Assess partner strategic objectives	Establish rules of engagement	Collaborate to refine solution, product, or service	Technology integration
Assess available solutions in the market	Identify gaps between needs and internal capabilities	Assess partner presence, structure, and capabilities	Establish roles and responsibilities	Define value proposition and differentiation	Sales operations and lead management
Define objectives for market opportunity	Identify potential solutions and partners	Determine nature of partnership	Agree on distribution of operations (who does what)	Develop brand and strategy	Sales compensation
Align objectives with company strategy	Prioritize potential solutions and partners	Develop revenue sharing model	Establish financial targets and success measures	Define customer experience	Business operations, billing, cash management
Develop partnership strategy	Assess company readiness	Align strategic goals and set expectations	Define ongoing investment model	Define marketing/ branding	Business processes
	Build business case and secure internal sponsorship	Formalize relationship		Design packaging and pricing	Regulatory approvals, compliance, data security
				Finalize contract	Distribution and logistics

The Jabian Partnership Enablement Capability Model

KEY	
INSIGHT I	Who's accountable for the customer experience?
INSIGHT II	How do you prepare for regulatory compliance?
INSIGHT III	Technology integration: easy or hard?
INSIGHT IV	The partnership is formed, then the world changes. Now what?

PLANNING AND LAUNCH			ONGOING REFINEMENT		
DEFINE GO-TO-MARKET CAPABILITIES	DEFINE PRODUCT MANAGEMENT CAPABILITIES	LAUNCH PRODUCT	REFINE GO-TO-MARKET CAPABILITIES	CONTINUOUS DEVELOPMENT AND IMPROVEMENT	MANAGE PARTNERSHIP
Develop go-to-market messaging	Build release plans and enhancements	Define pilot in test markets	Ongoing lead management and prioritization	Monitor and analyze customer feedback	Establish baseline partnership success metrics
Identify sales teams for product	Build installation support	Launch pilot	Ongoing opportunity management	Ongoing release planning and enhancements	Partnership evaluation (periodic)
Develop internal training and communications	Build technical support	Implement refinements from pilot	Ongoing sales and revenue evaluation	Reevaluate price, placement, and product	Open and ongoing communication with partner
Train sales and distribution teams	Build billing support	Launch product		Re-evaluate roles and responsibilities	Partnership continuation/ modification/ cancellation
Prioritize leads by propensity	Establish customer feedback/Voice of the customer				Exploration of additional synergies
Identify buyers and opportunities	Define and measure metrics				Regulatory approvals, compliance, data security
					Distribution and logistics