Fintech: Tying the knot

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Heather McKenzie looks at why so many fintechs and banks are ready to walk down the technology aisle together.

It is a perfect match – banks are looking to leverage the flexibility and agility of fintechs while those fledgling companies are seeking scale, gravitas and experience. Although these types of relationships were forged long before Covid, the pandemic strengthened the resolve of both parties to find the right partner to meet the changing needs of their client bases.

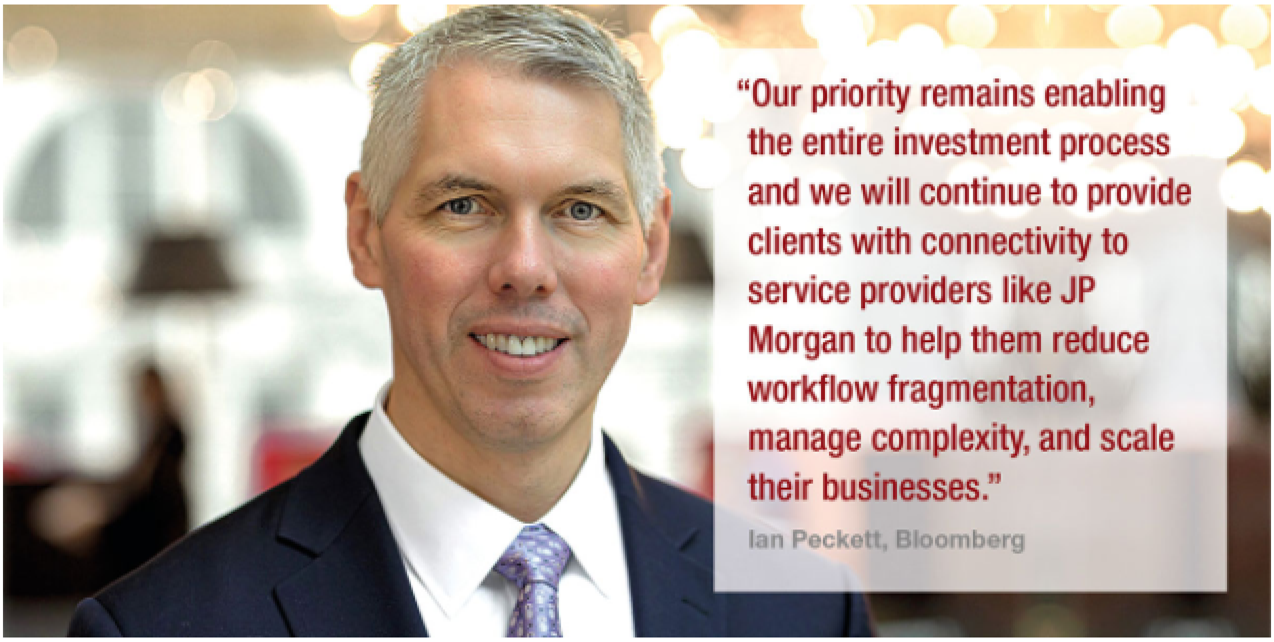
For example, the strategic, multi-year technology partnership between Deutsche Bank and Google Cloud, finalised in December 2020, was claimed as a first for the financial services industry. The deal will help to accelerate the German bank's transition to cloud services while working with the tech giant to create new products and services.

Deutsche Bank claimed the agreement would enable it to develop applications more quickly and gain the use of advanced artificial intelligence and data analytics tools. In so doing, the bank would be able to "respond more flexibly and accurately to the most pressing challenges, trends and client needs", it said in a statement.

The partnership is the culmination of a trend that has emerged over the past couple of decades; the supplier/customer relationship has become more nuanced, with greater willingness to cooperate on both sides. While the big tech and fintech firms have the technology, financial institutions have the data to fuel solutions. Big techs and fintechs are no longer viewed as rivals who are out to eat the banks' lunch.

Bernd Leukert, Deutsche Bank's chief technology, data and innovation officer and member of the management board, described Google Cloud as a strategic partner that would accelerate the bank's technology transformation and enable it to use data more intelligently. "This is the blueprint for bringing together the relative strengths within banking and technology for the benefit of our clients," he said when the deal was announced.

Earlier that year, in May, JP Morgan Securities Services and Bloomberg announced collaboration on a post-trade workflow solution that offers direct front-to-back process, product and data integration. The solution is based on Bloomberg AIM, an investment and order management system, and the US banking giant's back office technology and operational expertise. Buy-side clients receive seamless, fully-integrated real-time settlement that reduces their operational costs.



Ian Peckett, Bloomberg's global head of buyside product, said when the solution was launched that optimising operating models was a "critical objective" for Bloomberg's clients. "Our priority remains enabling the entire investment process and we will continue to provide clients with connectivity to service providers like JP Morgan to help them reduce workflow fragmentation, manage complexity, and scale their businesses."

JP Morgan said the "true integration" would give its buyside clients "better management of transaction data, frictionless workflows and real-time lifecycle transparency, which provides significant value across the front and back office".

Complimentary skillsets

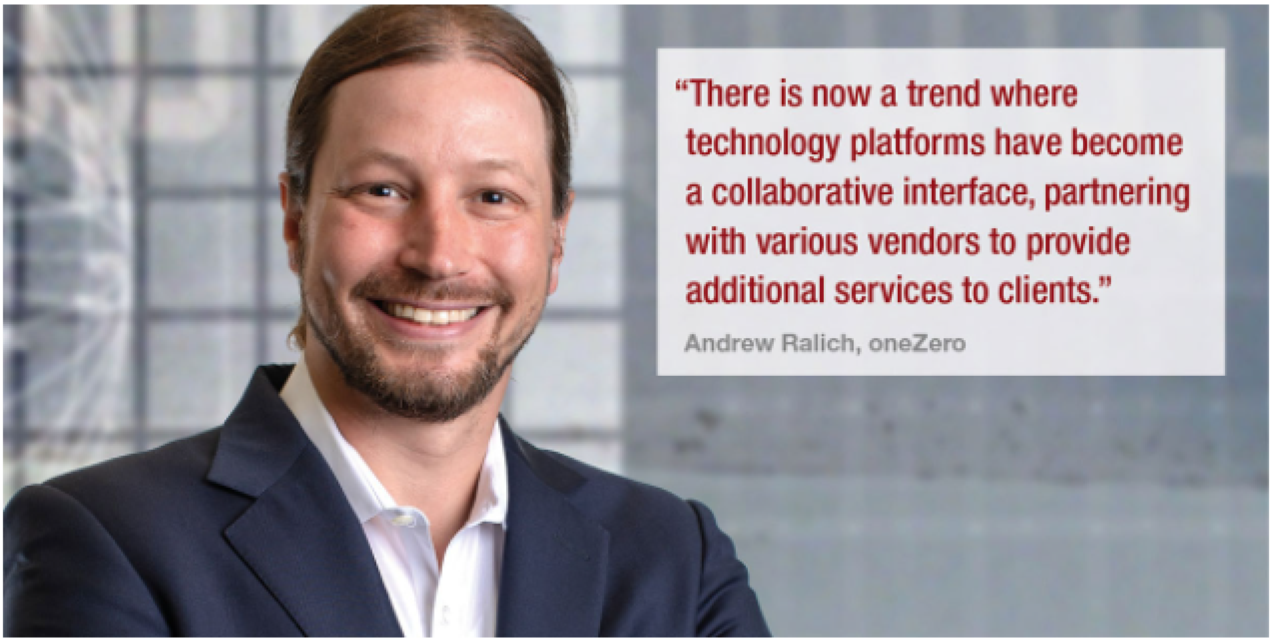
Jeroen van der Kroft, partner financial services consulting at Ernst & Young in the Netherlands, identifies four reasons that fintech companies are eager to cooperate with banks:

- Banks generally have a more well-defined and stable client base;
- A partnership, cooperation or collaboration with a bank is a stamp of trust that confirms the credibility of these fintech services to the customer;
- Banks tend to have bigger investment budgets that can provide a flow of capital to further develop fintech services; and
- Banks have a lot of internal know-how and knowledge in areas that fintech firms can benefit from, such as legal and regulatory compliance and risk management.

Writing in March 2021, van der Kroft notes that there are two main drivers for banks to collaborate with fintechs. One is that customers have become increasingly used to a seamless digital experience and expect the same from their bank (a service few banks are able to provide yet). The second is that fintech companies have moved from being just a single service provider to providing a whole suite of services.

This shift to platform-based business models and an ecosystem set-up provides banks with various opportunities, if they decide to enter into these collaborations, he notes. "Strategic partnerships have led to growth of the banking-as-a-service (BaaS) market, in which third parties can connect directly with the banks' existing and well-regulated infrastructure, in order to provide a seamless customer experience."

Regulations have also given fintech companies the possibility to directly integrate with traditional banks and share their technology for mutual benefit, he adds.



Financial institutions and vendors can have different solutions, but they all rely on data, real-time signal processing and decision making, says Andrew Ralich, chief executive and co-founder of trading technology company oneZero. While traditionally aggregators have been used simply for liquidity, "there is now a trend where technology platforms have become a collaborative interface, partnering with various vendors to provide additional services to clients".

Andreas Burner, CIO at software vendor SmartStream, says collaboration between financial institutions and technology vendors is picking up, made easier by cloud technology. The number of established and trusted cloud services vendors in the market has increased. "The Covid pandemic has led many banks to switch to cloud services," he says. "Technology is becoming interchangeable for banks; they can focus on their core businesses and strengths and IT and software are not a core strength."

Five years ago, many of SmartStream's software products were installed at client sites. Today, its services are on the cloud and large and even smaller financial institutions can use services and software collaboratively. An interesting trend cloud services have enabled is a move away from highly-tailored software towards standard, 'out of the box' applications that can be used immediately. "Highly tailored software is high maintenance and we have seen more of our clients trying to keep to the established industry standards and best practice, working with us to develop and refine these," he says.

Filling the gaps

One issue driving greater collaboration between tech companies and financial institutions is the availability of skills, says Andy Schmidt, vice-president and global industry lead for banking at IT and business consulting firm CGI. "Banks and technology vendors are challenged to find the right people; it is often cheaper and faster for them to build solutions together," he says.

While there are still some larger financial institutions that prefer to build solutions themselves, partnerships are increasingly evident, particularly when a financial institution wants to get to market faster, or a firm has the development and skills to create the desired infrastructure, he adds. A FI may have a great idea but lack the IT development skills required to build a platform, implement the required security, standards and protocols.

The benefits of financial services collaborations are "hard to ignore", says Samir Pandiri, president of brokerage services company Broadridge International. "Firms can expect to experience financial, operational, and strategic benefits by gaining access to new technologies, and improved scalability and resilience, whilst saving on time, money, and risk. This allows firms to keep up with the ongoing technology transformation race and ensure their operating models adapt in response to the rapid pace of industry change that continues to accelerate as the new normal emerges."

Recent research by Broadridge shows that firms leveraging next-generation technologies through collaborations with fintech organisations can see gains in costs, margins and shareholder value, he says. "Broadridge's Next-Gen Technology Survey showed rising benefits of next-gen technologies – 67% expect to see decreased costs and 62% improved profitability over the next two years through their adoption."

The digitisation push among firms is likely to continue, says Schmidt. "Clearly the financial services sector had an identity crisis in the initial days of the Covid pandemic, unsure how they could support clients while staff worked remotely. This drove a renewed digitisation push at large corporate banks and capital markets firms. Now they have seen the benefits, such as improved service levels, CIOs are unlikely to back off and will double down on digitisation."