The Financial Services Forum

Copylab

Is Collaboration the Next Frontier for Fintech?

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From Disruption to Deals: Fintech Firms Turn to Partnering

It wasn't all that long ago that fintech companies looked intent on picking fights. Up-and-coming startups vowed their new technology would soon render much of the financial services industry obsolete. "Disruption" was thrown around a lot.

Though the stream of fintech news shows no sign of waning, its combative tone has shifted. As with Goldman Sachs' recent $100 million investment in Neyber, industry news is currently dominated by partnership announcements. But after the PR buzz subsides, questions arise for both startups and Big Finance on how to make these partnerships work for mutual benefit.

Just how quickly they get to see a benefit was a pressing question in a recent discussion held by The Financial Services Forum, in conjunction with Teamspirit. "As a rule, the established partner will want to know – how fast can we get to a complete product?" said Ishaan Malhi, founder and CEO of Trussle (an online mortgage broker), "And the startup will be asking – how fast can we test ideas?" Both parties, he added, underestimate the time this takes.

Richard Thompson, head of Barclays Rise (an incubator launched by the bank to engage and support the fintech ecosystem), agreed that relationships between start-ups and banks are changing, and the view is for longer time frames. But, he cautioned, whereas large financial institutions can afford to take their time making a decision, wasting a startup's time can crash a young company, as it bleeds capital while it waits.

Across the industry, banks and asset managers are trying to develop an internal strategy to address the fintech threat. For many the question has not been whether to partner, but with whom. Murray Raisbeck, global and UK head of fintech for KPMG, said that based on conversations they've been having with clients, a good rule of thumb would be to look at strategic objectives over the five- to ten-year horizon. "Whether it's top line challenge, markets you're trying to enter, or a problem your customers are struggling with, it's best to search for fintech startups that target these objectives."

For Barclays, Thompson says, potential fintech partners have to either offer value in R&D innovation over the long term, or provide a solution that fits in with one of the bank's immediate strategic problems (and doesn't conflict with something already pursued doing in-house). From the bank's end, he adds, successful partnerships depend on a senior internal sponsor to move the project forward.

For some fintech start-ups, the challenge of narrowing the scope of partnership options becomes even more complex, as potential partners may lie beyond financial institutions. As Malhi points out, "Finance doesn't exist in isolation. The question is, what part are you hoping to play in customers' lives?" Both VC investors and fintech startups are now considering the entire value chain involved when consumers require a financial service. Trussle, for example, ended up partnering not with a bank or a mortgage advisor, but with Zoopla, an online property search engine.

Thus far, though, consumer-facing fintech companies have struggled to charge higher prices for premium offerings; instead, technology has prompted a pricing race to the bottom. The mortgage and insurance businesses have seen this happen as comparison engines commoditised their services, and the rise in passive investing is doing much the same for asset management. Thompson adds that all the while, client expectations have also risen, with services now expected to be both digital and on-demand. But once these criteria, along with price, are met, he says, it's really the service that makes a product stick.

Scott Gallacher, chief commercial officer for Moneyfarm (a digital wealth management platform), thinks the economic impetus to re-think about how clients are serviced is good news for the asset management industry. He points to retail banking contenders such as Atom, Monzo and Starling; though it's still too early to tell whether they can achieve sustainable success, they have already found that in order to reach scale they had to offer, beyond technology, a reset to the traditional retail banking service model.

For customers, too, service has become a differentiator. As much as the internet allowed consumers to chase after cheaper prices, it also led many to recognize that cheapest is not necessarily best. Customers have become more comfortable with paying premia for personalised services.

With so many clients already willing captives of Google, Amazon and Facebook, the panel held a particularly lively discussion on whether the finance industry ought to consider tech giants a threat. Barclay's Thompson thinks it's foolish not to: "Looking at China, at WeChat and AliPay, financial services companies have every reason to be worried of being cut out. It's not just in financial services. With Amazon having bought WholeFoods, Sainsbury's and Asda are concerned. To become relevant, you have to be part of this tech-giants-led ecosystem."

But Trussle's Malhi doesn't really consider them an opportunity – or a threat. He recalled a meeting held with Google when Trussle was in its earlier stages, when the search giant was busy scouring the UK for targets to power a UK-based comparison engine. Google did end up buying a competitor, Malhi says, and then it went on a hiring spree, setting up a base in San Francisco. Then, nine months later, Google terminated the project. "The large tech firms," he says "won't pursue a project if it doesn't fit with their broader risk/reward model."

One way to guess if a business is potentially a good fit for the tech giants is whether it can be reduced to a click. Anything that involves having a conversation has not been, traditionally, a mainstay. Moneyfarm's Gallacher added that the assumption, that major tech companies can always develop these capabilities in-house doesn't hold up in practice. "How many years have we been hearing that Amazon is going to dominate media streaming? They've bought LoveFilm; they're investing; and they are growing, yes, but they're not Netflix. Same with food: Amazon Fresh has been going on for seven or eight years, and they still ended up buying a supermarket."

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