3 contributors to dynamic banking partnerships

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Many of the new, dynamic and nimble digital ecosystem, which have touched very sphere of banking and financial services, are the result of an alliance between fintech players and more established, traditional banking partners.

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These ecosystems can be loosely understood as falling into two, complementary digital models: banking as a platform (BaaP), and banking as a service (BaaS). BaaP is essentially a digital marketplace, owned and operated by a bank or another (potentially non bank) entity that provides banking and non-banking services. A BaaP provider has typically aggregated a deep customer pool. On the other hand, BaaS is an end-to-end process that allows fintechs and other third parties to connect with banks' systems directly via APIs - so that they can provide turnkey products or services on top of the providers' regulated infrastructure (wherein the bank is effectively playing the role of the platform provider). While this may be gripping stuff for technologists, what does it actually mean for consumers of these services, i.e. customers?

In developed world economies, many fintechs became superstars overnight by challenging the status quo and forcing big banks to accelerate their digital transformation journeys. For customers, this means that their choice of digital banking partners and digital services is expanding quickly – with challenger banks prompting new emphasis on the digitised customer experience.

Similarly, in many developing markets, savvy fintech's are leveraging symbiotic banking partnerships to bring digital financial services to users in a more affordable, accessible way than has previously been possible – and in this way, accelerating financial inclusion for large swathes of previously unbanked users. In many ways, these lesser-known but increasingly powerful banking alliances are shaping developing world banking by taking users on a step-by-step journey to financial empowerment – with users becoming familiar with self-service onboarding and KYC procedures, for example, which can be increasingly achieved via mobile phone.

Arguably, this is just the beginning for banking alliances that leverage both platform banking (BaaP) and banking as a service (BaaS) - not least because they allow service providers with deep specialisations such as insurance, home loans, or remittances - to gain access to new customers without any major investment or infrastructure spend. Moreover, institutions with strong aggregated customer pools can connect these customers to a broader array of services that increase customer retention and share of wallet.

In the wake of the global pandemic, finding these types of cost effective but powerful ways to expand reach and deliver business value will become increasingly important – and arguably, a way to achieve longevity in a fast-changing banking environment.

That said, what will define the success of these banking partnerships, and how do leaders recognise symbiotic alliances?

1. There is a broad, addressable customer base

When two banking or financial services providers are eager to sweat the white spaces in their respective ecosystems, so to speak, the first requirement is that there is an existing and significant base of users to which you can offer a new value-added service (or services) on top of existing ones.

For instance, a traditional retail bank might want to start offering cross-border remittance services or cell-phone handset insurance, alongside its traditional home loan or credit card products - and would therefore look for specialists in each domain to offer these value-added services to the bank's existing customer base. From the specialist's perspective, the attraction is to plug-in via an open banking/API construct and immediately gain access to a wide base of new, engaged customers – while the platform banking partner is able to provide new value (thus generating additional revenue) without redundant or expensive infrastructure spend. Notably, this model doesn't work in a world where the customer base is small and/or unaccustomed to paying fees for incremental services.

2. You define your core customers differently

When exploring potential platform banking or banking as a service partnerships, a key indicator of synergy (or the lack thereof) is how each provider defines its core customer base. If these definitions are fundamentally different, then there is scope to explore an alliance. Conversely, if the organisational definitions are the same or focus on a customer segment that is too similar, this should be an early red flag that the alliance is unlikely to be one that endures - because the forces of friction (incentive to compete) are likely too great to resist for any length of time.

In scenarios whereby larger, established banks are looking to partner with smaller, more agile providers that specialise in a particular vertical or banking niche (such as remittances, or niche insurance provision), it is almost given that their way of defining customers will be fundamentally different – hence revealing scope for a dynamic and valuable alliance: wherein the respective parties convert hitherto fallow white space in their ecosystems into valuable, tangential revenue generators.

3. There is trust & transparency from the get-go

Banking partnerships, as with most others, must be characterised by transparency as well as the ability to be agile and fast moving. For instance, both parties must be willing and able to share the relevant IP upfront, as well as API documentation and all the relevant data to link systems and processes together.

Intentions and processes should be documented and clarified early on, and critically, there should be the ability to test the turnkey nature of the proposition – with quick, accurate and comprehensive results that can affirm the value of the alliance (or reveal gaping weaknesses in the proposition).

With digitisation and access to real-time data, long gone are the days when decision makers have to rely on expensive market research or the word of potential partners. Instead, we live in a world of instantaneous feedback loops, so alliances/banking partnerships should be taking their cue from real-time data and rigorous user testing that informs strategies from the start. A common desire across partners to get out the starting blocks quickly, and then to test, learn and refine is often a critical indicator of the partnership's success potential.

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