

Bank eBook

# Connecting for Success

Strengthening business relationships through fintech partnerships



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# Introduction

Do you remember that game show, “The Weakest Link?” The host asked a difficult question, and if your team perceived that you were the member with the most incorrect answers, it was over for you. You were dismissed with a simple, gut-wrenching statement: “You are the weakest link. Goodbye.”

That show was successful because it evoked primal emotions, a nervous anxiety as we waited to hear who would be eliminated from the competition. Its popularity emanated from one core principle: No one wants to be the weakest link.

We find ourselves in a similar scenario when we look at today’s financial services landscape. A quick scan of the market reveals an abundance of independent players battling it out to ensure that they have the right answer to the market’s most pressing challenges. From emerging players to established authorities, each provider strives to align products and services directly with customer needs, vying for a deep and sustainable relationship.

But today’s customers demand more than ever before. Small-to-mid-sized businesses expect a digital experience that reflects that of their consumer lives. No longer are clients only comparing banks to one another; they are assessing them against retail behemoths that cater to a simple, frictionless process. In effect, a bank’s digital offerings are evaluated against customers’ daily interactions, where they ask themselves, “If Amazon can do it, why can’t my bank?”

This tension has led to a new paradigm of coopetition between financial institutions and fintech providers. Bank/fintech partnerships create a symbiotic experience where the strengths of one organization augment those of the other, ultimately delivering an enhanced banking experience for the business end-user. This bank/fintech collaboration strengthens the bond between the bank and its business customer and bolsters their relationship.

But not all fintech partnerships deliver on that promise. The key to success lies in establishing a true connection with the fintech provider. This relationship allows both organizations to focus on the customer as the center of the solution, and ultimately, solve the business’ needs directly via the bank. While the intricacies of how that is done vary from institution to institution, the core principle rests on a single foundation: Put the customer first.

## co-op•e•ti•tion

k ō , äpə’ tīSH(ə)n/  
noun

collaboration between  
business competitors,  
in the hope of mutually  
beneficial results.

“I would have a hard time leaving my bank if I was securing all of my payment services through it, whereas if I’m getting all of these services outside of my bank, then my bank is the weak link.”

—Mark Lindsay, Business Owner, Lindsay Leasing

## CHAPTER 1

# Establishing the Connection

## Complementing Strengths of Banks and Fintechs

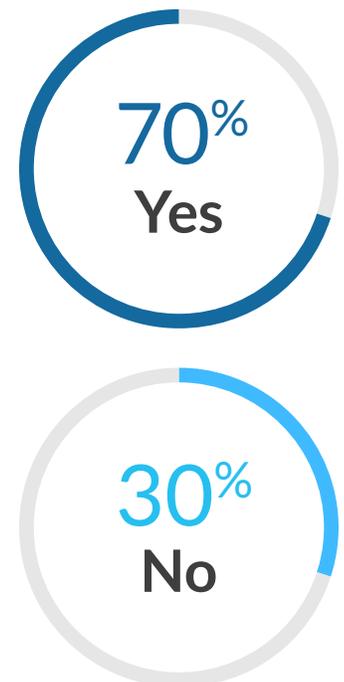
With a customer-centric approach in mind, banks can address pain points by exploring specific business needs and identifying where there are gaps in existing products. Most often, this analysis culminates in a “build or buy” evaluation to determine the most efficient and effective method of meeting unmet customer needs.

The results of this assessment often lead to new technologies and relationships to support customer demand. So, it’s no wonder that bank/fintech partnerships continue to climb. According to PwC’s 2017 report, *Redrawing the lines: FinTech’s growing influence on Financial Services*, 82 percent of global financial services companies plan to increase fintech partnerships in the next three-to-five years.<sup>1</sup> What’s more, 70 percent of large and mid-size financial institutions have an entire group dedicated to looking at fintechs for possible partnership or investment.<sup>2</sup>

“Banks see what fintechs have to offer and can appreciate there are many strengths they can leverage,” states Stephen Markwell, managing director and product executive, Commercial Banking, Chase. “As an example, fintech companies are able to concentrate on a single problem statement with a great leadership team and talent, and use a modern technology stack. This allows them to be agile and develop great solutions.”

And it’s not a one-way street. Fintechs benefit from banks’ broad customer distribution scale to help extend their offerings, as well as their knowledge of the regulatory landscape. In fact, the *World Fintech Report 2018* concludes, “Fintech firms are coming to realize that their ability to expand their base, gain full consumer trust, scale operations, and navigate a complex regulatory environment is reliant upon the support, engagement, and valuable insight of industry veterans.”<sup>3</sup>

### Banks Actively Looking at Fintech



Bank responses when asked if they had a group within the bank tasked with looking at fintechs for possible partnership or investment.<sup>2</sup>

<sup>1</sup>Source: [Redrawing the lines: FinTech's growing influence on Financial Services](#), PwC, April 2017

<sup>2</sup>Source: Aite Group's survey of 34 large and midsize banks around the globe, June-July 2017

<sup>3</sup>Source: [World Fintech Report 2018](#). Caggemini, LinkedIn in collaboration with Efma

Beyond customer-facing advantages, both the bank and the fintech find internal business benefits from their partnerships. For the bank, legacy systems can hold back development, making it harder to act quickly. In addition, a bank’s established infrastructure can make it costly to implement custom, in-house products. Fintechs can help solve for both of those problems by creating turn-key solutions that integrate with existing infrastructure. On the flip side, fintechs recognize the benefits of the established bank perspective. From a deep understanding of today’s evolving marketplace to data-centered insights into customer behaviors, partnering with a bank increases internal fintech knowledge.

“What’s best about all of this is the fact that the customer is the biggest beneficiary,” points out Christine Barry, research director at Aite Group. “They’re benefitting from things like faster access to innovative capabilities from their trusted advisor at the bank.”

Financial Institutions		Fintech Firms	
<b>Strengths</b>	<b>Weaknesses</b>	<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>+ Banking license</li> <li>+ Customer base</li> <li>+ Broad set of products and services</li> <li>+ Regulatory and compliance expertise</li> </ul>	<ul style="list-style-type: none"> <li>- New product development</li> <li>- Innovation</li> <li>- Customer experience</li> <li>- High operating costs</li> <li>- Legacy systems</li> </ul>	<ul style="list-style-type: none"> <li>+ Development agility</li> <li>+ Innovation</li> <li>+ UX design expertise</li> <li>+ Modern technology stack</li> </ul>	<ul style="list-style-type: none"> <li>- Customer base</li> <li>- Limited set of financial products</li> <li>- Regulatory and compliance experience</li> <li>- Business model</li> </ul>
<b>Opportunities</b>	<b>Threats</b>	<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>+ Ongoing transformation of the banking industry</li> <li>+ Changing technology infrastructure and mindset</li> <li>+ Expected increase in API usage and consumption</li> </ul>	<ul style="list-style-type: none"> <li>- Consumer confidence</li> <li>- Loyalty of younger generations</li> <li>- User experience complexity</li> </ul>	<ul style="list-style-type: none"> <li>+ Fintech funding</li> <li>+ Eroded customer confidence in traditional banking establishments</li> <li>+ Expected increase in API usage and consumption</li> </ul>	<ul style="list-style-type: none"> <li>- Increased regulatory oversight</li> </ul>

## CHAPTER 2

# Bolstering the Bond

## Opportunities in Support of Business Customers

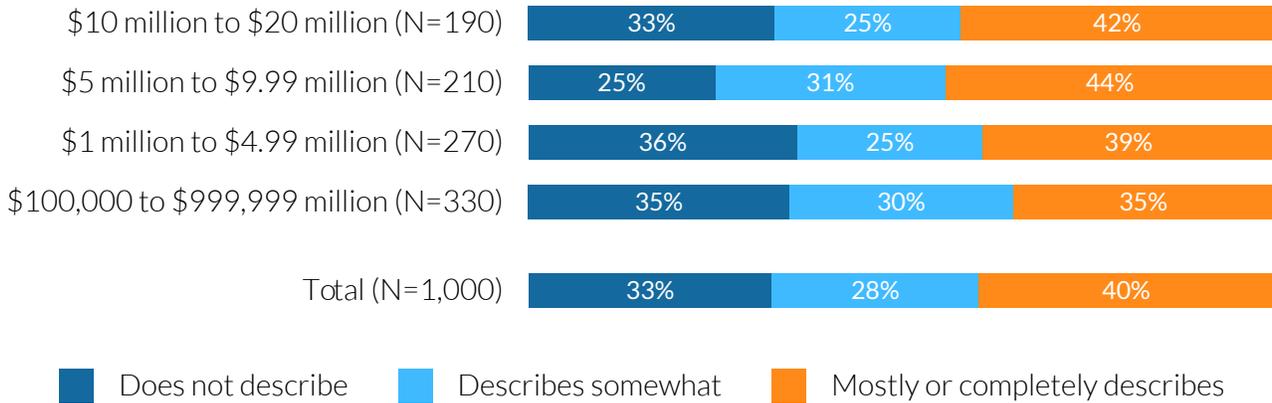
As banks look to strengthen their relationships with businesses, their goal is to provide a broad array of financial services that directly address client needs. Today's business customers expect their banks to provide cohesive services that simplify their processes and reflect the ease of experience they have in their consumer interactions. For example, businesses look for their bank to offer:

- ✓ An improved look/navigation/access to information
- ✓ Actionable consolidated reporting
- ✓ Real-time information
- ✓ Customer-driven dashboards
- ✓ The ease of an app
- ✓ Wizards
- ✓ Responsive design, digital everything
- ✓ A balance of automation and human interaction

"If I can interface with one company and solve many of my problems, that's better for me," concludes Mark Lindsay, owner of Lindsay Leasing, a property management company. "It would be a more integrated banking experience and would strengthen my relationship with my bank."

This business need for a one-stop-shop drives bank/fintech partnerships. As previously referenced, fintechs can offer more modern, quick-to-market options that respond to customer demand and integrate with existing systems. Perhaps none-too-surprisingly, because of this demand, the customer recognizes the value in bank/fintech relationships. A recent Aite Group survey concluded that business clients overwhelmingly support their financial institutions partnering with more fintech providers. But customers don't want banks to simply partner with fintechs; they want their financial institutions to choose providers whose solutions can improve their suite of business services. For example, the consumer's digital experience shapes small and mid-sized businesses' expectations today, and they want their banks to identify partners who can mimic the experience in a business environment.

Question: How well does the following statement describe your business' point of view?  
 "I wish my bank would partner with more fintech providers."



Source: AiteGroup survey of 1,000 U.S. businesses between US \$100,000 and US \$20 million in annual revenue, June to July 2017

“Customer needs and expectations are really starting to reflect what they’re seeing in their personal lives,” notes Barry. “They are starting to compare their bank’s user experience against their best experience in general.”

Banks recognize the need to rise to that challenge by enhancing their digital offerings. This shift to creating a more consumer experience for business clients impacts how banks think about the products and services they develop.

“Often we’ll take a part of a user experience and try to draw a parallel between it and other consumer technologies to find best practices,” indicates Markwell. “We use that internal scan to inform best practices.”

This shift toward a savvier business customer changes the process by which banks lead their product design as well. Banks are moving away from a waterfall development approach, where product creation happens in a vacuum. Today, some banks welcome their customer’s feedback in agile development. By using this methodology, banks are able to target the specific needs of their small- and mid-sized business clients, responding directly to requests and managing pain points.

For example, Chase reports that by employing agile design, the company learns from customer feedback and strengthens its offerings.

“When we have concepts, we engage our clients to validate those concepts and inform them,” states Markwell. “We make clients part of the design process so they can influence the design and make it better.”

**ag·ile de·vel·op·ment**

/ˈajəl dəˈveləpmənt/  
*noun*

A process that embraces adaptive planning, evolutionary development, early delivery, and continual improvement, and it encourages rapid and flexible response to change and end-user input.

Overall, this client involvement leads to solutions more targeted to business needs. It also allows banks to dive deeper to understand a client's internal processes and systems, and their impact. Businesses look to banks to provide efficiency, seamlessly integrating with existing platforms. When banks incorporate that level of awareness into their product plans, they score big wins with their customers.

"We have a process and a way of doing business, and what I'm looking for is a way to get the job done better," indicates Lindsay. "We have to find a technology solution and map it to how we operate. It's very important that the products work with other technology we already have."

*"An effective customer focus involves empathizing with the customer, building trust, simplifying the customer experience, and aligning with customer goals and expectations. Having a customer-centric approach and being fully transparent while offering a delightful, yet simple and consistent customer experience could help firms differentiate themselves."*

*—The World Fintech Report 2018<sup>4</sup>*

Beyond the technological side, there's a personal connection that must come through in the end product. Customers want to feel they have been heard and understood, and that the bank's solution speaks to their needs. The World Fintech Report 2018 concludes that this relationship element remains one of the most critical points for banks and fintechs in becoming market leaders:

This is where fintechs become excellent partners for banks. With their targeted areas of expertise, fintechs can enhance a bank's knowledge of customer needs and pain points relative to a specific problem and offer solutions that speak directly to the small and mid-sized business customer.

To that point, Barry concludes, "It's not surprising that we're seeing a growing number of banks looking at partnerships with fintechs as a way to meet new market expectations."

<sup>4</sup>Source: [World Fintech Report 2018](#). Capgemini, LinkedIn in collaboration with Efma

## CHAPTER 3

# Linking for the Win

## Opportunities in Bank/Fintech Partnerships

When bank/fintech partnerships execute well, the customer becomes the biggest winner. Working with fintech providers can help banks to seamlessly and cost-effectively offer:

- ✓ Faster access to innovative capabilities
- ✓ An enhanced user experience
- ✓ Bundled pricing opportunities
- ✓ Access to needed products without sacrificing security
- ✓ The opportunity for deeper, more valuable relationships

Yet, the benefits of bank/fintech relationships extend beyond the experience alone. These relationships introduce significant opportunities for banks themselves. Ultimately, a bank who offers thoughtful fintech solutions deepens the customer relationship, driving the loyalty of the business client.

“Our focus is on how to best meet customer needs,” notes Markwell. “We’ve found that if you listen, identify ways to solve for their issues, and develop products and services that do that very thing, you end up with a loyal, trusting customer who looks to you as a true partner.”

And for banks, long-term relationships mean less client turnover and more business success. Aite Group research shows that banks that focus on deepening customer relationships achieve a higher number of products per customer, as well as higher revenue from this customer segment. Addressing customer needs can lead to additional bank sales opportunities as well. In fact, of small businesses with revenues from \$1 million to \$20 million, 87.7 percent are willing to pay for bank products and services that save time and increase convenience.<sup>5</sup>

Overall, cultivating a multilayered client connection engenders client trust and translates to the bank becoming the business’ primary financial institution. For example, a business customer may come in on the lending side of the bank, but when the customer forges a relationship with the bank, he/she is willing to explore cash management offerings and beyond. So when a fintech can support a bank in this way, it aligns with bank strategy and becomes an integral part of the equation.

“We find that when you put the client first, everyone succeeds,” Markwell concludes.

<sup>5</sup>Source: Aite Group Survey of 1,000 Businesses Generating Less Than US \$20 million in Revenue

No matter how you look at it, when banks partner with a fintech to address their clients' needs, they establish a win-win-win connection. The fintech wins through broad distribution of their solution to new markets and the stability and regulatory know-how of the bank partner. Banks win by efficiently introducing new technology solutions that address their customers' needs and expectations. And ultimately, the business customer wins by receiving a user experience that exceeds expectations and enhances its relationship with its bank. As a result, smart fintech partnerships help banks remain central to business clients' needs, now and into the future.

“The future rests in the capable hands of those industry stakeholders prepared to commit to incumbent and fintech collaboration through which participants leverage each other's numerous strengths to meet customer needs and redefine the journey.”

—World Fintech Report 2018<sup>6</sup>

## A special thank you to our contributors:



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<sup>6</sup>Source: World Fintech Report 2018. Capgemini, LinkedIn in collaboration with Efma

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