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Fintech to Fintech Partnerships

The Way of the Future

This report has been written in collaboration with select Matchi member fintech firms and serves to provide insight into the latest Fintech evolution: Fintech to Fintech Collaboration.

We would like to thank our contributing Matchi members for taking the time to share their valuable insight and knowledge to this report. We are proud to have you all as Matchi fintech members.

It's been amazing to see how the fintech industry has evolved over the past four years since we started Matchi back in 2013.

Back then, the mantra of many fintech firms when it came to financial institutions was some form of "we're going to eat their lunch". We had a different take on this, and believed from the start that the real way forward for the fintech industry was collaboration. Over time, our view has become mainstream, with fintech firms and financial institutions (both banks and insurance companies) working together in many markets, leveraging each other's strengths to create better solutions.

That's not to say that collaboration has been easy - big financial institutions and more agile fintech firms often struggle to find the right approaches and paths to work together most productively. But with the right people and the right support, great things can happen.

As Matchi's reach and sphere of influence around the world has grown over time, we have started to see something new beginning to emerge - something which we see as the next wave of the global fintech revolution: fintech firms collaborating with each other. This report provides a glimpse into and some insight about this new phenomenon.

We think this is being driven by a few different factors, including (1) better understanding of the needs of large financial institutions by fintech firms; and (2) the ease with which fintech solutions can be set up to work together via APIs. As fintech firms understand that their point solutions can be fairly easily extended to include other parts of the value chain in which they operate, and that doing so makes them more valuable to financial institutions, this new form of collaboration is set to grow.

The result will be the next wave of fintech solutions, which while more complex in technical and commercial terms, will also be more extensive in their offerings for clients and thus more valuable for end users.

The team at Matchi, led by the very able Sash Pillay, has created this first 'Fintech to Fintech' report, working with selected fintech firms on the Matchi platform, with the aim of better understanding this phenomenon, and how it will change the world of fintech for the better.

We hope you find it useful, and welcome comments and feedback!

Best regards,

David Milligan

Topics of Conversation

We would like to thank the following Matchi Members for their contribution to this report:

An Overview: Fintech to Fintech Partnerships

It's the way of the future

There was once a time when the term "silos" was a corporate buzzword coined to chastise internal departments in large organisations when they refused to collaborate with each other. This internal sharing caused a wave of change in most organisations, not without resistance. That was a simpler time.

Now, large organisations (like financial institutions) have extended this line of thinking to collaborating with single companies outside of their own in order to reach their strategic goal. Not without its complexities and risk, this transformation has laid the groundwork for another way of change: large organisations collaborating with companies outside their own to bring superior products and services to the consumer faster – helping complex organisations meet their customer's expectations.

David Milligan, Matchi CEO, masterfully shared his perspective on the journey of innovation in the financial services industry in the foreward to this report. Our contributing Matchi firms echo his thoughts while sharing their own distinctive observations from each firm's vantage point in this diverse industry.

Douglas Azaar, Wealth Initiative - By definition, Fintech companies focus on selective areas and develop skills which cater to a niche market. Most Fintech firms understand and realized that partnering with each other would accelerate their market penetration and allow them to develop products at a faster pace. However, even if they are useful and seem like an easy alternative, partnerships must be taken seriously. Fintech companies have to pay close attention to two main requirements: strategic fit and cultural alignment. Without those two criteria, the partnership is at risk of failing.

Rob Leslie, Kyckr - John Donne wrote "No man is an Island, entire of itself; every man is a piece of the Continent, a part of the main." This is just as true for businesses operating in the domain of financial services. No business should expect to be able to address the entire need of a financial institution. It is too broad and too complex. As a consequence, partnerships will be formed by companies and organisations. Each firm may work towards a common goal but each with different offerings that complement each other. Both firms need to come together to create a superior offering that enhances the prospects of both companies winning new business – business that they may not have won before.

Abolore Salami, Riby - So much suggests that financial services will become a tech-first industry. Fintech companies are leading this change now with their current niche models, but perhaps not for long. This is a good approach but will lead to users/financial institutions needing multiple providers to manage their needs. Fintech firms need to come together to combine their services for end-to-end delivery. It will benefits not only the financial institution but the end customer as well – it's a win-win alternative.

What signs should you look for before initiating a fintech to fintech partnership model?

Timing is important. This is true in launching a business as it is in knowing when to collaborate with another organisation.

It will be valuable to look beyond your internal needs and refocus on the entire customer value chain. This will help you learn which collaborations are natural for your business. It will also help you understand what the competitive landscape of your potential partner looks like so that you can make the best decision for you.

Don't take this decision lightly or make it too quickly. Look to understand things like the potential partners' operating model, strategic goals, expansion plans, leadership team and level of maturity.

Vahid Monadjem, Nomanini - The first thing to do is assess if a partnership is necessary for a proposed project. A well scoped out project brief will help guide this decision. From here, you are able to determine if your firm has the capability or the resources to deliver on required outcomes.

Something else to consider is the strategic fit of a potential fintech partner. Every firm has their niche and it makes sense to partner with a firm that not only supports your delivery but aligns with your firms' long term goals as well. This will make the relationship easier to navigate and will communicate a consistent message to financial institutions – making it easier to trust you both.

Jeff Chesky's Checklist for Initiating a Fintech to Fintech Partnership, Insuritas.

1. Does the fintech partner understand the vertical, regulations, the issues around security, data sharing, online engagement and product aggregation?
2. Does the fintech partner understand the importance of collaboration?
3. Does the fintech partner have the bandwidth and cultural commitment to making incremental changes in smaller test environments rather than have an 'all or nothing' approach to innovation?
4. Does the fintech partner have any talent that has Financial or Insurance industry experience?
5. Will their capital position allow them to be around as the collaboration, testing, reengineering and retesting progresses?

When should you not partner with another fintech firm?

Experience is a great teacher but most fintech firms cannot afford the fees for the lesson.

Before engaging in a partnership, create a list of your non-negotiables in collaboration. Doing it before a need arises helps you make objective decisions when there is pressure from a client or pressure to meet a deadline.

If you don't have the luxury of time , put together a well sized multi-disciplinary team to give their views of the partnership and benefits for your business. The diversity of skills/ experience and knowledge will help you view the opportunity through multiple lenses very quickly and assist in identifying any flags which a small decision making team may miss.

Vahid Monadjem, Nomanini - When considering a partnership, focus on the trust you have in your partners' capabilities, integrity culture. If you have reason to doubt any of these: don't enter into a partnership.

You need to be able to navigate difficulties of the project together. It's why we stress the importance of trust between both parties even if this is, admittedly, difficult to determine. The benefit is that once trust is established, information can be shared openly and freely leading to a better understanding of each business and how to leverage the strengths of both, to best effect.

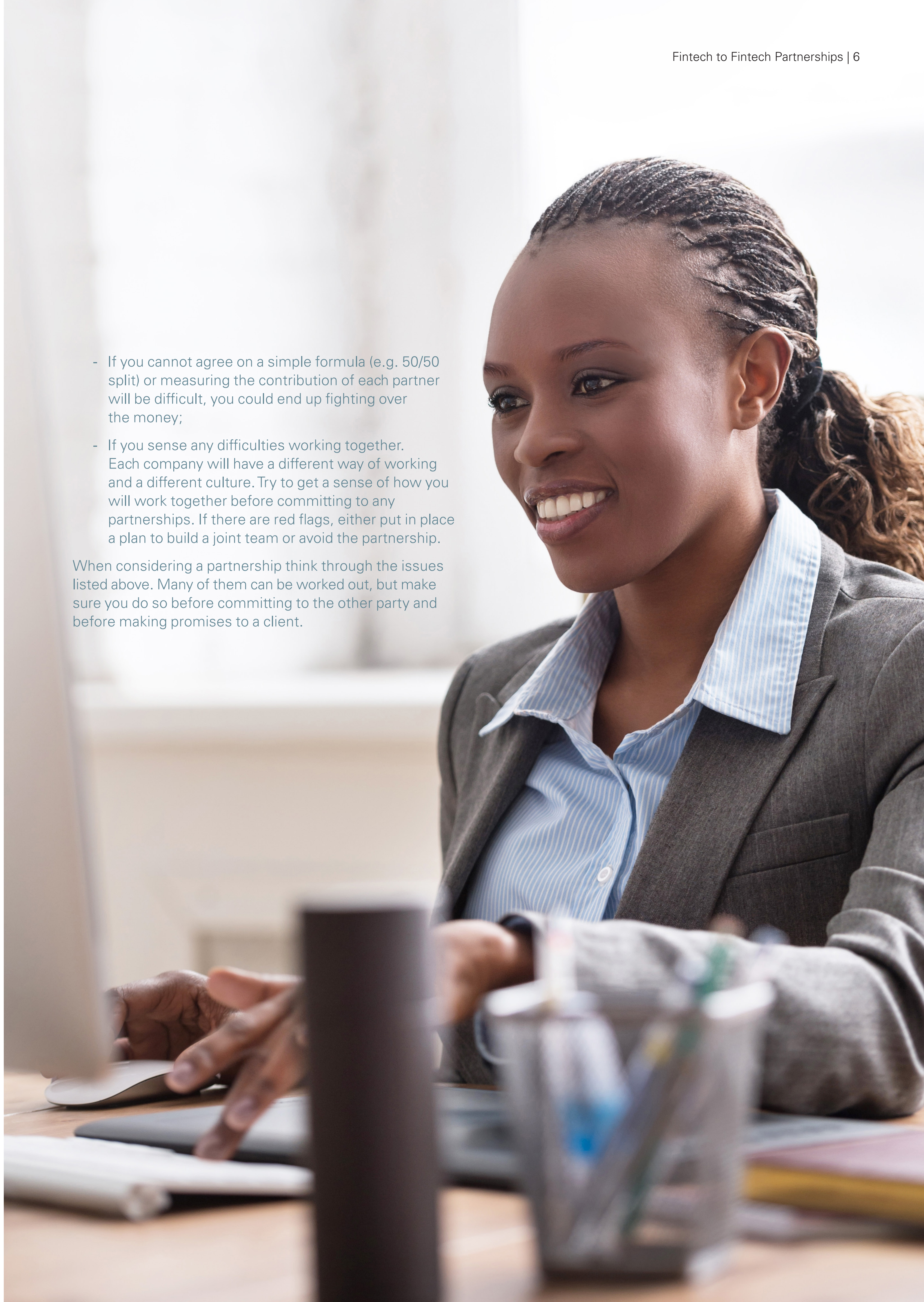
Culture plays a big role in the success of a partnership, particularly if it is a long term project. If partners don't share the same core values or work in a similar way, it could cause conflict and lead to the dissolution of an originally promising collaboration.

Sanjeev Chugani, Finansync - When each partner fills a gap better than the other, each gain from collaboration. Offering adjacent/complementary propositions widens individual fintech capability and can create a deeper relationship with the customer. Keeping the focus on the customer reduces the strain of 'sharing the pie'- each partner may see revenue ownership decrease, but with stronger and wider customer propositions, more customers will likely be attracted. Sharing insights can strengthen each partner and benefit the customer, but is difficult when individual agendas compete – hence minimal capability overlap allows for a balanced strategic partnership.

Craig Carter, Luminous - (CheatSheet for saying no) Two FinTech companies partnering together can give them the size, credibility and product coverage to succeed in landing a contract with a financial institution, however, a partnership is not a good idea in the following circumstances:

- If there is the possibility of the two Fintech firms being competitors currently or in the future because their offerings and skills are too similar;
- If either one of the Fintech firms could quickly build any technology offered by the other;
- The possibility of each Fintech firm going its own way in the future is very real. It is important to think about an "Ante-Nuptial Agreement" before working together. Who gets the IP, who gets the customer, who gets the shared team? If any of these questions could lead to conflict, rather avoid the partnership;
- If role clarity is not obvious; you need to be clear upfront who will do what and how each partner will add value. If this is not easy to manage it could lead to conflict and under-performance;
- If you cannot agree on a simple formula (e.g. 50/50 split) or measuring the contribution of each partner will be difficult, you could end up fighting over the money;
- If you sense any difficulties working together. Each company will have a different way of working and a different culture. Try to get a sense of how you will work together before committing to any partnerships. If there are red flags, either put in place a plan to build a joint team or avoid the partnership.

When considering a partnership think through the issues listed above. Many of them can be worked out, but make sure you do so before committing to the other party and before making promises to a client.



What makes a good fintech to fintech partnership?

A good fintech to fintech partnership creates sustained value and financial benefit for both firms, the financial institution with which they partner and the customers whom they serve. Multiple factors contribute to the quality of this collaboration. The responsibility to maintain or develop this falls on the shoulders of all parties but there are certain principles which are integral to a well formed partnership.

These principles exist from the start or are developed over time. Either way, there's no doubting that matters like: good communication, mutual respect and knowledge sharing (when done well) can make or break a partnership. Read on as our contributors share their experience and knowledge on principles they see as markers for a good partnership.

Rob Leslie, Kyckr - A good partnership is built on mutual trust. That trust is built over time and stems from core values and capabilities, both technical and commercial. Communication is an essential element without which differences and misunderstandings will not be resolved. And, when things don't go to plan, honesty to address the issues in an open and non-confrontational manner will be key. Partnerships should be entered with a clear understanding of the objectives of each partner and a view on what should be done in the event of both success and failure.

Salami Abolore, Riby - Riby is currently partnering with a SME accounting services fintech firm. This experience has thought us that complementary services and shared revenue protection are great components for a positive collaboration. It's also important to take it back to the end customer: Is better value being created for the end customer? If it is, this is a valuable sign of a good partnership.

Colin Goldstein, iwoca - Success story. At iwoca we have established a partnership with Xero, the fintech firm leading the way on transforming the accounting software market through cloud services. We have integrated iwoca's credit facility into Xero so that Xero customers can access credit by linking their Xero account. Customers essentially authorise iwoca to access their Xero account and use the data to make a credit decision. This saves the customer time and makes their access to credit easier than if the Xero integration did not exist. More than this, iwoca posts loan information back into Xero so that customers can reconcile their accounts quickly and simply.

This has taught us that when a fintech to fintech partnership enhances the offering of both parties there is a basis for a long term partnership with interests fully aligned. Chances of success are multiplied and that's what makes it a good partnership.

Hugh Whitehill, Link - Fintech firms often face the same challenges like: getting their first reputable clients, market integration, trust from organisations and most importantly, making use of limited resources and stretching every dollar early on. A good Fintech partnership is not only about going to market together, it's about sharing what they have learnt and leveraging each other's strengths and learning from weaknesses or past failures. Also, make sure to leverage each other's PR and marketing reach – you can get further together!

How do you pitch the fintech to fintech collaboration to financial institutions?

Laying down the foundation for a good partnership and successfully navigating the (sometimes numerous) risks can be valueless without having the skill to sell the benefits of your partnership to financial institutions.

The puzzle is really how to create an exciting narrative for the combined product which speaks to the benefits of the partnership clearly and makes it easy for the financial institution to say: "Yes, please solve our painpoint!" Getting this result is dependent on demonstrating knowledge on how both products interact with each other for a better result, the overlaps in target markets and potential for growth which would not have been there before.

Having said this, discounting the fundamentals of sales would be a mistake. For example, it becomes more important to know the audience you are presenting to and pre-empting the questions which may arise. Your skill should never be sharper- and neither should your stamina and grit.

Douglas Azaar, Wealth Initiative - Partnership brings a stronger value proposition to a Fintech's target market. Fintech firms need to demonstrate that the partnership is intuitive from both the point of view of the other Fintech firm as well as for the financial institution. Position it as a one-stop-shop where financial institutions would free up valuable time in picking a "conglomerate of FinTech" rather than doing it themselves or selecting a single Fintech firm at a time.

Sanjeev Chhugani, Finansync - People in financial institutions worry about risks. Vendor selection is risky: team size, traction, funding often matter as much as the value the Fintech firms' application(s) could provide customers. A joint Fintech 'bundled' proposition offers wider insight, expanded resources and a spread of vendor 'risk'. Financial institution legal teams are adept handling liability across multiple parties, hence for business line and/or innovation teams, the key are the customer proposition(s) that can be safely and quickly addressed to profitably deepen the customer relationship.

Craig Carter, Luminous - 4 point checklist for success.

- **Get your ducks in a row.** Work through internal arrangements such as whose technology to use for what, what team members are involved from each company, what to charge etc. before meeting with the financial institution.
- **Speak with one voice.** Present yourselves to the financial institution as one team for the purposes of the project. You want the financial institution to perceive that this engagement is the same as dealing with one service provider.
- **Highlight the completeness of the solution.** One of the main reasons for two Fintech firms to work together is to take advantage of their complementary technologies. Make sure you emphasise to the financial institution how your combined solutions gives them a more complete and competitive solution.
- **Emphasise the strength in diversity.** Without contradicting any of the points above, let the financial institution understand that it will benefit from the diversity embodied in your two organisations. This may include a larger resource pool with diverse skills, access to different geographies, a larger toolkit of technologies to apply to the solution, and/or depth of staff for ongoing support of the solution.

If you get these right, and add your usual flare and style, winning contracts should be as easy as, if not easier than, going it alone.

Closing Thoughts and Thank You

It's the way of the future.

Fintech to fintech partnerships make sense. They are a natural evolution in an industry built on specialising in pieces of a value chain – making these firms nimble and quick when responding to the changing demands of the consumer. It's what we love about them.

Connecting these links in a way that provides mutual tangible benefits for each firm, the financial institution and end customer is not easy but also not impossible. The journey to doing this for best efficiency begins by knowing when to partner with another firm - and when not to. A well-formed partnership is there from the start or needs to be built over time. And, when all of this is in place, perfecting how to pitch the partnership to financial institutions takes top priority.

We recognise that this report covers an emerging topic in an exciting and ever changing industry. As more collaborations are formed, the shared knowledge and wisdom of the industry will grow – and we look forward to contributing our experiences, and those of our members to it as well.

The quality of contributions to this report has asserted a long held Matchi belief: We have forward thinking members of value. With 700 + member financial technology firms in the Matchi stable, including contributions from each member would not have been possible. We can only thank all our members for being active and engaged in every opportunity we provide and extend our gratitude to those who contributed their insights and experience to this report.

Warmly,

Sashreka Pillay

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