



Department for
International Trade

Landing a Successful Bank-FinTech Partnership in the US

INSIGHTS REPORT • March 2021





Department for International Trade

The United Kingdom is home to one of the world's leading financial services centers, and FinTech is one of its fastest growing sectors. In 2020, UK FinTech attracted \$4.1 billion in venture capital and ranked second globally, behind only the United States. The US represents the UK's largest net financial services export market.

For this reason, the UK's Department for International Trade (DIT) and the U.S. Department of Commerce contribute commercial engagement insights to the US-UK Financial Innovation Partnership (FIP). In 2019, representatives from the U.S. Department of the Treasury and the UK's HM Treasury formed the FIP to identify potential regulatory synergies, share lessons, and develop closer working relationships. Both countries will build on existing regulatory cooperation by discussing regulatory developments and sharing experiences on technical issues related to financial services innovation.

In this insights report, leaders from LendIt Fintech and DIT present findings from a series of intimate, intensive workshops between regional bank senior executives and FinTech leaders.

We chose this intersection for its unique opportunity and growth potential. Moreover, DIT specialists across North America can help banks of all sizes seize UK FinTech opportunities with expert insights, key connections, and bespoke support.

DIT's goal is to promote UK trade across the world and attract foreign investment to our economy. We are a specialised government department with responsibility for negotiating international trade policy, supporting business, and delivering an outward-looking trade diplomacy strategy.

Banks and corporations may register their interest in finding solution providers via DIT's Leading Edge Global Partnerships Program. [Sign up here](#) or contact us at DITFinTech@trade.gov.uk.

LendIt Fintech

LendIt Fintech is the largest media and events company dedicated to innovation in lending and digital banking. Today, we operate three major conferences annually for the US, Europe, and Latin America markets, along with our digital community and our daily news organization.

Financial services are rapidly upheaving. This is the culmination of a multi-decade transformation where, as digitization accelerates, financial technology takes center stage. There has never been a more exciting time to be in financial services—join us on the journey. Learn more at <https://www.lendit.com>.

Report Methodology

LendIt Fintech and DIT invited senior bank executives and FinTech leaders to explore the opportunities and challenges of bank-FinTech partnerships in a digital-first world. Those discussions resulted in this report.

The workshops included senior officers, influencers, and decision makers from *City National Bank*, *Folio Financial (Goldman Sachs)*, *Piermont Bank*, *US Bank*, *First National Bank of Omaha*, *Truist Financial*, *Optum Bank*, *Congressional Bank*, *Capital One*, and *People's United Bank*; and key leaders of prominent UK FinTechs *Onfido*, *ComplyAdvantage*, *Quantexa*, *Amplifyfi*, *ThoughtMachine*, *AccountScore*, *CurrencyCloud*, *OakNorth*, and *Liberis*.

Discussions were held under a modified version of the Chatham House Rule, in which participants are free to use the information received, but direct quotations may not be attributed to specific speakers or organizations.

Landing A Successful Bank-FinTech Partnership in the US

UK FinTechs are well positioned to assist North American banks

UK FinTechs enable North American financial institutions to better cope with marketplace changes driven by rapidly changing consumer preferences, the digital revolution, and behavioral shifts brought on by remote work and the pandemic era. Indeed, UK FinTechs can deliver real value. However, “crossing the pond” is not a casual activity; it requires forethought, commitment, and expert guidance.

This report discusses promising areas in bank-FinTech collaboration, how to get the attention of US banking institutions, key preparation insights, and elements of a successful partnership.

UK FinTechs are leading the global FinTech charge as a result of consistent, intensive FinTech investment. Since 2015, the value of venture capital FinTech investments in the United Kingdom grew from \$1.3 billion per year to \$1 billion per quarter for the first two quarters of 2020. In terms of consumer FinTech adoption, the UK ranks within the top 10 countries in the world. Currently, 71% of UK residents use FinTech products, well more than in the US (46%)¹. With the combination of a supportive regulatory regime, including coordinated support from HMG, industry, and trade bodies, the UK is a veritable breeding ground of financial services innovation.

“Most of the faster payments initiatives, both domestic and cross-border, are coming from overseas.”

– Innovation executive at a large US bank

¹ <https://technation.io/report2020/#32-tech-adoption-services>

It is no surprise then that US financial institutions call upon UK FinTechs to apply purpose-built, market-tested technologies and services to help them keep pace with digital trends and cope with change.

US Banks seek partnership with UK FinTechs

As North American financial institutions pursue scalable solutions to their problems, UK FinTechs find success developing business through partnerships in the US market.

EY reported more than 250 banks across 50 countries experienced closures or restrictions as the global lockdown began. Alongside this, consumers increased their adoption of contactless payments, digital investing, and mobile banking. Today, these are societal norms and generally expected from mainstream financial institutions².

58% of senior US bankers said that FinTech partnerships are a proven part of their execution strategy, and 84% said they were willing or eager to engage with a UK-based FinTech.

– LendIt Fintech Bankers Survey, September 2020

Many believe that the shift to digital will accelerate as consumers emerge from the global pandemic. Jane Fraser, President of Citi, notes, “Banking has changed irrevocably as a result of the pandemic. The pivot to digital has been supercharged.” She adds that the “model of the future [is] a light branch footprint, seamless digital capabilities, and a network of partners that expand our reach³.”

² https://www.ey.com/en_it/banking-capital-markets/four-ways-covid-19-is-reshaping-consumer-banking-behavior

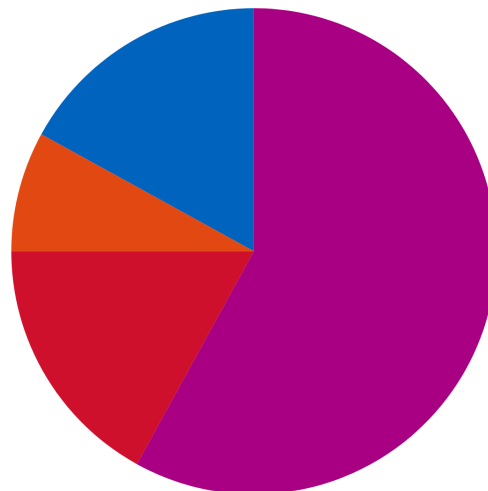
³ <https://www.forbes.com/sites/antoinagara/2020/06/08/the-worlds-best-banks-the-future-of-banking-is-digital-after-coronavirus/>

“ This is a very good moment for banks to partner better with FinTechs.”

– Senior innovation executive at US regional bank

In addition, US banks now see the benefit of UK FinTechs’ view on how regulatory requirements and business practices intersect. From the recent workshop conversations, executive participants noted how European companies focus more on “outcomes,” while US companies stress “process.” Via partnership, US banks can apply outcome focused perspective to improve processes; for example, using a FinTech’s AI/ML analysis tools to structure data and assess portfolio customers including who “can” pay, who “can’t” pay, who “shouldn’t” pay, and who “won’t” pay.

How actively are you partnering with FinTechs to solve specific needs for your financial institution?



58%

FinTechs are a proven part of our execution strategy.

17%

We are engaged with potential FinTech partners.

8%

We are considering engagement with FinTech partners.

17%

We are curious about the potential benefits of partnering with a FinTech.

In response to cultural and marketplace shifts, US banks seek FinTechs as vendors and—more importantly—as *partners* in building digital-first solutions for their customers. In mid-2020, for example, US-lender Customers Bank **inked a partnership** with London-based credit intelligence firm OakNorth.⁴ Top banks are increasingly drawn to credit analysis and monitoring platforms offered by FinTechs like OakNorth to improve lending products to the ‘missing middle’.

According to Rishi Khosla, Oaknorth’s co-founder, the SMB segment is persistently underserved because large banks lack “necessary insight and foresight” on target borrowers. Khosla notes that the enriched underwriting and credit science capabilities of FinTechs add agility to banks’ historically inflexible lending approaches and boost credit monitoring and portfolio management capabilities. Customers Bank Chairman and CEO, Jay Sidhu agrees: “The platform should improve portfolio risk management through the use of big data and AI, while providing relationship managers with a deep understanding of their borrowers and industry verticals⁵.”

While crises may fast-track partnership interest, pandemic fallout is not the only factor spurring cross-border partnerships. Everything from increased availability of online services and heightened security awareness to cloud-first business models, mobile device use, and consumers’ need for embedded finance catalyze partnerships.

“ Within 72 hours we deployed a Customers Bank platform powered by OakNorth. This allowed us to become the #6 PPP loan originator in the country, above Citi and Wells Fargo.”

– Sam Sidhu, Vice Chairman and COO of Customers Bank

⁴ <https://www.customersbank.com/investor-relations/press-releases/customers-bank-the-fintech-forward-us-lender-partners-with-oaknorth-as-it-looks-to-significantly-enhance-its-credit-monitoring-and-portfolio-management/>

⁵ <https://www.customersbank.com/investor-relations/press-releases/customers-bank-the-fintech-forward-us-lender-partners-with-oaknorth-as-it-looks-to-significantly-enhance-its-credit-monitoring-and-portfolio-management/>

Banks are innovating across businesses and functions

COVID-19 fast-tracked banks' shift to digital. Banks of all sizes prioritized investments in lending, payments, RegTech, and core banking—all with the aim of providing better digital services to a largely remote (and on-the-go) customer base.

Of course, financial institutions' requirements are idiosyncratic to niche, customer base, and strategy. While there is no apparent consensus on which banks—or bank segments—the current crisis and future environment will alter the most, we expect material change within at least five areas of financial services. These include:

Lending Technologies

Lending technologies encompass the array of innovations applied to the challenge of lending. Lending technologies may include everything from sourcing, analyzing, and underwriting, to managing loans and loan portfolios.

Key interest areas include

Credit model support
Thin-file and no-file underwriting
Portfolio management

Access to data
Pattern analysis
Portfolio stress-testing

Payments Technologies

PayTech applies advanced technology, networks, and systems to efficiently move money—whether between wallets, accounts, businesses, banks, treasuries or borders. Managing payments is one of the most fundamental capabilities of the financial system.

Key interest areas include

Payment hubs and gateways
Domestic payments

Cross-border payments

Regulation Technologies

RegTech employs technology to more efficiently manage regulatory processes, including monitoring, reporting, and compliance.

Key interest areas include

Identity management
Know Your Customer
Anti-money laundering
Anti-redlining

Compliance management
Enforcement
Social impact initiatives, including
Community Reinvestment Act

Core Banking Systems & Banking-as-a-Service

Core banking systems exist in the back end of financial institutions' networks and power daily transactions and posts or updates to accounts and other financial records. Core banking systems typically include deposit and loan and credit processing, with interfaces to general ledger systems and reporting tools.

Key investment areas include

Digital Banking Services
Core bankings migrations
Digital onboarding

Back-office enablement and efficiency
Remote workforce enablement and
management

Horizontal Technologies

Other technologies cut across a variety of applications, including Artificial Intelligence (AI), Machine Learning (ML), and blockchain applications.

Areas of interest include

AI/ML applied to onboarding, underwriting, and user experience

Blockchain enablement of trade finance, transactional accounting, and governance

Navigating the US banking landscape

When banks lack a clear competitive advantage, they look to FinTech partners for fresh capabilities and new revenue opportunities. But as FinTechs look to establish banking relationships, they must first identify (and align to) banks' priorities.

Practically, this means identifying the right problem—one that intersects both the FinTech's functional expertise and a priority issue for the bank. As one bank lead noted, "Finding the hierarchy of priorities is critical," although a viable starting place is always "customer acquisition and revenue."

While each of the domains discussed above will materially change in the future, it is unlikely that they will change proportionally or with the same level of urgency. FinTechs need to be aware of this. Another national US bank lead notes that "From a consumer banking standpoint, there isn't a huge need to address remittance and cross-border payment functionality." The leader notes how this segment doesn't "add to the bottom line" enough to warrant prioritization. While a function like this may not lend itself to a ground-up build internally at a bank, it may be attractive as part of "rebundling of financial services" packaged and offered by a partnering FinTech.

“ We look at the value chain and we ask, ‘Where does it matter to our clients that we’re the best?’ So, we focus on owning the things that we can do uniquely well, finding bespoke partners for things that we need to be really good at, and then finding industry utilities for the things that aren’t as important to our clients.”

– Innovation officer at US-based community bank

Innovation and partnership approaches may take many forms. Clearly, what matters is that FinTech products and services enable now-critical functions that banks struggle to execute themselves. By example, US-based WebBank recently partnered with UK digital lender Capital on Tap to expand financing access for American SMBs via an innovative credit card product. While Web Bank operates as issuer and lender, they lean on the Capital on Tap technology platform for delivery and management⁶.

Other partner-like models are surfacing as well. Consider the recent expansion of the working capital solution between FIS and Liberis, a UK-based FinTech⁷. Liberis’ core business is B2B2C “embedded finance”—that is, partnering with marketplaces and payments software providers to provide personalized, pre-approved revenue-based financing to their end customers. While Liberis may not interface explicitly with the bank, via partnership with banks’ partners, they facilitate SME funding and create “instant value” for banks, their partners, and SMEs⁸.

Partnership Dynamics to Consider

Whether for platforms or point solutions, banks now pursue FinTech partnerships more aggressively than ever. The dynamics of each bank vary and, while generalities proclaimed about a swath of the market are not always accurate, some rules of thumb may well apply. For example, for smaller banks that target niches, relationships are a key asset while scale is not. Yet, through a well-considered FinTech partnership, these banks can essentially engineer the benefits of scale.

⁶ <https://www.finextra.com/pressarticle/86401/capital-on-tap-launches-small-business-credit-card-in-the-us>

⁷ <https://www.businesswire.com/news/home/20200129005069/en/FIS-Announces-Working-Capital-Powered-by-Liberis-to-Provide-Alternative-Funding-Solutions-to-U.S.-Small-Businesses>

⁸ <https://techcrunch.com/2020/12/22/liberis-the-embedded-finance-provider-for-smes-raises-additional-70m-in-equity-and-debt/>

“The problem with large banks is that we're working on 150 ‘pressing’ problems at one time. Finding the right person with the right problem that fits your roadmap is one of the challenges.”

– Innovation executive at major US banking institution

Large money center banks, for example Citi and JP Morgan Chase (and those with assets over \$1 trillion) have a unique set of technical challenges—despite their resources. Although their technology and innovation budgets measure in the billions of dollars per year, partnerships with these institutions are complex and time-consuming.

Super regional banks such as PNC and Key Bank, with assets ranging from \$200 billion to \$600 billion, continue to consolidate and specialize. As competition increases, these institutions show willingness to partner with FinTechs, often championed by well-staffed and funded innovation departments.

Community banks and credit unions like Signature Bank of New York typically target a narrow audience— whether that is a specific customer segment, geographic area, or both. These entities often range in size from \$100 million to \$10 billion. Thousands of community banks and credit unions exist in the US, and many have leapt at the opportunity to scale their operations. Alongside this, they want to maintain their unique relationships with their local, segmented customer bases. Smaller banks and credit unions tend to be resource-constrained and more reliant on FinTechs.

Banks require FinTechs to be “buttoned down”

Banks’ requirements for FinTech partners start with compliance and end with trustworthiness. These are table-stakes for partnership and often include—

- Compliance with appropriate regulations
- Physical presence in the United States
- Robust architecture and scalability

“Nice-to-have” aspects include–

- Product-market fit
- Ease of deployment
- Time-to-market
- Fast ROI

In addition, banks appreciate the ability to influence their FinTech partner’s development roadmap. For larger banks, this may move from ideal to essential.

FinTechs should also require banks to be trustworthy partners

“It’s not all about what the bank wants. A successful partnership needs to run both ways.”

– Executive at large US bank

Successful partnership is a two-way street. This means that FinTechs must also roadmap priorities and critically evaluate any potential bank partners. Indeed, not all banking relationships are created equal. Below, we outline attributes of ideal bank partners.

- The bank invests in the solution, thereby providing real revenue (and cash) for the FinTech
- The bank allocates appropriate resources to deploy the FinTech’s solution
- The bank provides transparent, regular updates about the deployment process
- The bank appoints a single point-of-contact and relationship owner
- The bank willingly provides timely product/service feedback
- The bank offers guidance on the FinTech’s development roadmap

“A good POC lasts 4 to 8 weeks, depending on the solution.”

– Innovation officer at a large US bank

The near-term goal of a FinTech is often to establish a proof of concept (POC). Good POCs are not generic case studies. Instead, they directly apply to customers' problems and allow success to be managed and measured. Bankers agree that POCs should be non-disruptive tests, if possible, and relatively short in duration.

FinTechs and banks must be reasonable with one another in terms of the commitment required for the POC. The process must be long enough to provide banks with sufficient data to measure the value of the solution. However, the phase must not drag out and strain FinTechs' resources. Importantly, POCs must provide revenue to a FinTech, even if it is success-based.

FinTech-bank partnerships are naturally complex and rife with potential snags. These range from disruption, to misaligned incentives, competitive overlap, or a cultural and philosophical mismatch. When targeting a POC, FinTechs need one or more strong champions within the target bank to pilot around these issues. According to a leader from one UK financial analytics provider, the individual(s) must be willing to “take a risk to fulfill the potential of the technology.” Identify and cultivate these advocates, no matter where they office. By example, one champion may be an innovation executive while another is a service line owner.

“As a FinTech, you're probably way ahead of the bank. Try slowing down a bit.”

– Executive at midsize US bank

As experienced business development professionals know, a fast 'no' is far better than a drawn out 'maybe.' Note that procurement and partnership cycles can take months or years to complete; FinTechs must understand exactly how far away the goal line is. Connect regularly with the bank partner to ensure that both parties are tracking toward predetermined milestones and deliverables. Finally, align around softer success factors like culture, DNA, and a communicative approach before formalizing the partnership. Without this, a hard-charging startup may run afoul of bank executives who work within a different set of organizational, financial, and regulatory constraints.

A Final Word: Partnership Principles

The opportunities for UK FinTechs to engage US banks are great

As US financial institutions digitize and expand and improve their customer experiences, they seek robust FinTechs to partner with. The UK's Department for International Trade regularly assists UK FinTechs by developing and structuring partnership opportunities with eager banks.

As we observe early, mid-, and late-stage FinTech-bank partnerships, six takeaways surface. We encourage partnering companies to keep these in mind.

Top six ideas for FinTechs to remember when partnering with a US bank:

1

Pick the 'right' problem.

For banks, not all problems are equally concerning. Understand priority areas among critical stakeholders—and propose services to directly solve these. To start, look to improve client engagement or offer data-driven risk-profiling and credit decision support.

2

Start narrow, move wider (even if you have a big, initial vision).

Overly ambitious partnership ideas may overwhelm stakeholders. Consider the resource strain for IT, procurement, legal, innovation, and other teams. Target a single use-case, prove your value, build internal allies, *then* increase scope.

3

FinTechs don't know how to be banks.

Find the internal bank champion who can advocate for the partnership and proposed solution. This individual knows how the bank works; they will calibrate the project to end-customers' needs and executive sponsors' agendas.



4

Mind the mindset.

Propose a model that maps to how a bank historically partners. Are they interested in plugging FinTechs into corporate development/M&A efforts? Do they prefer an R&D model running pilots and POCs to jointly innovate? Or do they want an arm's-length relationship that mirrors how they work with vendors?

5

Showcase what is better/faster/easier/cheaper.

If a bank can reasonably duplicate internally what the FinTech offers, it might. UK FinTechs are often advantaged in terms of insight granularity, mining transaction data, and applying AI/ML-powered tools for decision making. Create appeal in arenas where FinTechs are strong, and banks are credibly weak.

6

Recognize and respect cultural differences.

FinTechs need to understand that wholesale, rapid innovation may be unnecessarily disruptive. For a large segment of the bank market, “traditional” processes need to remain. Don't plan to automate everything away; understand banks' appetite for disruption and where they will be most responsive to innovation.

Crossing the pond is not a casual activity, and DIT can help UK FinTechs secure partnerships with US financial institutions. DIT's business development specialists work directly with FinTechs and US banks to help establish and build successful partnerships.

For bank innovators seeking high quality, scalable FinTechs contact: DITFinTech@trade.gov.uk.



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