Banks Must Latch Onto The Fintech Partnership Model

16 September 2016 By: Jacob Jegher

In what has become a classic story in the fintech space, the start-ups that were initially created ostensibly to compete with and disrupt banks are now evolving to rely on partnering with them for distribution, access to investment and loan capital, and scale. In areas as diverse as lending, investing, deposits, and merchant services, fintech companies have demonstrated value by innovating quickly and operating flexibly. Those are attractive features for bankers struggling to keep up with customers' increasing expectations for their digital services.

That story is not new, and the ongoing explosion of partnerships will pose a challenge to bankers saddled with long and expensive integration processes. What is new is that consensus is building among forward-thinking bankers for a change in the partnership model toward one based on positioning the bank as a platform on which a plethora of third-party services and customers are able to connect through an (API).

Bankers should determine what processes and data they might open up to make existing relationships and partnerships more efficient. For example, if a bank has small business customers using a third-party accounting system that is screen-scraping for data, that area looks to be ripe for an API, allowing for authentication without transferring identifying information about the business customer to the third party and reducing the burden on the bank's servers. European banks will be required to offer these capabilities under PSD2 in January 2018.

The next level of API usage looks more like "banking as a service," similar to the way in which banks such as WebBank and Cross River Bank partner with online lenders today to allow the fintech company to use the bank's regulatory position to offer higher interest rates across state lines. Because banks hold a privileged position with regulators and a trusted position with consumers, there is an opportunity to leverage that position and provide account and transaction services to fintech companies for which those services would be inefficient or wholly unavailable.

Banks can accelerate innovation by opening APIs. With a handful of top FIs leading the way in building APIs for their customers and third-party players, the banking industry is scrambling to innovate and understand how to use APIs to streamline internal processes and make partnerships with third-party players more efficient and effective. APIs have the potential to revolutionize the distribution model for fintech companies and provide a source of revenue and cost savings for forward-thinking banks. Bankers should begin determining what processes and data they might open up to make existing partnerships and internal processes more efficient. Next steps will involve experimenting with trusted partners and customers—initially in the areas of authentication and basic data access—to explore use cases that will allow the bank to act as a central hub or platform on which secure external parties attach and operate.

This blog is an excerpt from [Top Opportunities in Small Business Digital Banking](). The report outlines nine key opportunities for small business bankers to reverse the trends of relationship fragmentation and commoditization, and create services that build engagement and demonstrate the bank's role as a trusted financial partner.

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