Partnering with Fintechs 101

A look at fintech insights every banker should know

A joint message from three fintech founders

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Executive summary

Today, most people conduct their normal everyday financial behavior online or digitally in one form or another. This has created a relentless push among financial institutions for more and better technology. As a result, interest has skyrocketed in the wide array of technological benefits fintech can bring to the table.

Most current published fintech information is more focused on the technical side. In other words, what spiffy technologies are at the center of the fintech hype today? What shiny new object has grabbed people's attention? While the technology stuff is interesting, this paper looks at fintech from a different perspective.

We look first at what personal qualities propel fintech founders to act. We explore how different stages of funding perform different functions and have different impacts on fintech organizations. Then we look at several steps bank leaders can take to ensure they have more productive interactions with fintech organizations. Finally, we cover the questions bankers need to ask to increase their confidence that the fintech relationship they're considering is a sound decision.

Fintech founders focus on solving financial institution challenges with technology solutions

Fintech founders are certain to be passionate about their technology. They saw a problem and detected value in finding a way to fix it. Then, they zeroed in on a good solution, and were able to visualize the path required to get there.

They have excellent critical thinking skills. They're highly motivated to solve problems, and they maintain high energy in the solution development process. They understand the risks involved and they accept them, and they understand there will be missteps and wrong turns along the way.

At the core, they pursue growth emphatically and consistently, and they have the high-order communication skills, situational awareness, and emotional intelligence necessary to infuse the other team members with the same passion. They want everyone involved to understand how important it is to solve the problem, to be aware of the risks involved, and to be able to tolerate and manage those risks.

In a nutshell, this describes the typical fintech founder.

Investor funds supply the fuel necessary to launch and grow fintech

The presence and support of interested investors and venture capitalists provides the fintech lifeblood. The fintech's state of readiness, product maturity, and growth needs all play a role in the determination of investment sources, costs, and availability.

Funding can come about in a variety of ways. The best capital for a fintech is revenue. To get to sustainability and maximize market penetration, the fintech may take on outside investment. Depending on the type of funding and its source, the cost to the fintech can vary. For example, private equity capital is invested in public entities or mature companies. In contrast, venture capital funding is given to startups or other young businesses which show long-term growth potential.

In practice, PE (private equity) funding will often impact the contract terms and product development roadmap under which the fintech operates. VC (venture capital) funding is more likely to influence the fintech's business model. In either case, the price of the fintech's product or service will have the cost of funding baked in.

Types of funding

Seed funding

This type is product centric. It focuses on product and market fit. This is the bank's initial opportunity to work with a fintech. They want to build from the ground up and establish a relationship early on.

Series A funding

This usually indicates a fintech has tested its product, gained some traction, and created a scalable blueprint for future growth. A more mature product is the key opportunity for investors at this stage. At this stage, bank partners have the potential to negotiate for product changes and customization at a relatively lower cost.

Series C funding

Fintechs receiving this funding are well into the expansion phase of their journey. They often want to take steps for their company to issue an Initial Public Offering (IPO.) At this stage, the fintech may want to introduce new products or pursue new market segments. They might also be interested in the acquisition of other fintech firms, such as promising but currently under-performing start-ups.

Series B funding

Investment of this type is typically used to help fintech startups grow and better meet an assortment of customer demands. These funds support growth and the creation of increased market share.

IPO funding

The IPO process governs how shares in an organization are made available to the public for the first time. Generally, this means the fintech generates annual revenue of over $100M and is at a likely growth stage. In addition, their financial statements should be stable, and the market should have reacted favorably to the company. Financial institutions who make this type of investment expect the fintech will operate at a steady product and service level and deliver results within the expected limits.

5 Steps for success in partnering with fintechs

By definition, a fintech firm is likely to be engaged in sophisticated technology. As a result, the bank's investment officers may not fully comprehend the fintech's business proposition. Even in this situation, there are good things a bank can do to solidify the fintech relationship.

Focus on strategic direction

This calls for a clear statement of the problem and related solution objective. The fintech will certainly be familiar with its own path. You may be surprised to learn the route the fintech sees to solve the problems aligns well with similar problems many financial institutions share.

Perform thorough due diligence

Even if the subject matter is new to you, you can still follow a due diligence process you know to be sound. Make sure your process steps are clear and you apply them consistently.

Stay aware of known contract redlines.

All business contracts tend to contain similar language. So, even if the contract is your first with a fintech, you can be confident you'll still recognize many of the provisions and expectations. They're usually consistent from contract to contract. Also, terms, phrases, and jargon are generally similar in contracts written by banks or credit unions.

Be conscious of the value of a “quick no”

A “quick no” is shorthand for the sometimes-hard decisions necessary to narrow the scope of, or not implement, a project. The fintech wants direct feedback, they have limited resources, and getting a "no" or even "not now" from your team allows them to focus on what investors want, revenue growth.

Be sure you have a dedicated internal sponsor

This is an absolute key. A single project sponsor gives the relationship with the fintech more stability than there would otherwise be. Conversations flow more freely, better decisions result, and the whole project will face fewer speed bumps and hurdles. Plus, when the project goes well, the sponsor tends to become its internal champion and become a vocal advocate for the project’s value to the institution.

Questions every FI officer should ask prospective fintech partners

For starters, they'll help the bank establish credibility as a knowledgeable partner. Even though every business situation is unique, these questions will give you a good start. First, ask yourself a couple questions.

Have I heard about this technology from other bankers?

What's the prevailing opinion?

Does it seem like it's worth investing in?

Then, move on to the questions for the fintech.

What problem will this technology solve?

What would a successful outcome look like?

How do we minimize risk?

What does the product look like to the customer?

What other types of modifications will be potentially needed?

How will you support our success with the product?

What's the owner's professional background?

Which other banks use your product?

Can we start with a pilot program?

Want to find out more?

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