Your guide to partnerships in financial services

How changes in regulation and technology are helping mid-size and small financial institutions and fintechs to gain a foothold in international markets.

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Financial Services today: the market and the regulation

In today's economy it is very important for Financial institutions (FIs) to be able to compete globally. Large players such as global banks are best placed in the international arena. They are able to utilise their significant financial means to expand their business through presence in offices around the world and by building the infrastructure to support that growth.

In this environment other providers such as mid-size or challenger banks, building societies and new fintech players could find themselves dealing with a David and Goliath situation that stops them from achieving the scale they aspire to.

Thankfully a solution does exist, in the form of partnerships. To expand internationally, smaller players and newcomers do not need to dedicate massive budgets and spend years building capabilities from scratch. By teaming up with organisations that already have the capabilities they require they can compete effectively and go faster to market.

Such an approach has been facilitated by regulatory developments that aim to leverage technology to promote more competition in the market and provide consumers with more control and capabilities. In this context, Europe's Second Payment Services Directive (PSD2) and the UK-initiated Open Banking directives have played a key role in transforming the landscape in a way that could benefit smaller players.

PSD2

The Revised Payment Services Directive (PSD2) came into force in 2015 throughout the European Union (EU) and European Economic Area (EEA), replacing the Payment Services Directive (PSD), of 2007. It is governed by the European Commission to regulate payment services and payment service providers and aims to increase competition in the sector, promoting the participation in the payments industry of non-bank players. It also aims to enhance consumer protection by better harmonising between consumer rights and their obligations, as well as the obligations of payments providers. Moreover, the directive promoted the enablement of third-party access to account information, thus opening the door for smaller players and newcomers in finance to challenge the status quo and launch innovative services.

Open banking

Another important development in this space has been the implementation of Open banking. Debuted in the UK in 2018, and with increasing take up around the world, it is driven by the Competition and Markets Authority on behalf of the UK government. Its stated aim is to bring more competition and innovation to financial services[1]. Services delivered under this umbrella are overseen by the UK Financial Conduct Authority (FCA) and European regulators.

1 The Open Banking Implementation Entity https://www.openbanking.org.uk/customers/what-is-open-banking/#:~:text=Open%20Banking%20is%20designed%20to,the%20FCA%20or%20European%20equivalent

Open banking has the potential to reshape financial services in the UK and is already making its mark around the world. Its impact has been seen in retail and institutional banking and it is thought to have opened the door for new fintech players to thrive. Anchored around the use of open-source technology, it aims to provide greater financial transparency for account holders, through better control over their data. It also promotes the use of Application Programming Interfaces (APIs) to enable third parties to build functionality around existing financial infrastructure.

The UK's Competition and Markets Authority named only nine banks in its decree: HSBC, Barclays, RBS, Santander, Bank of Ireland, Allied Irish Bank, Danske Bank, Lloyds and Nationwide. However, many other providers have stepped up to open their own networks, creating an additional revenue stream for themselves and also providing other institutions with the opportunity to partner for growth.

Further initiatives

Other regulatory obligations and industry advances are also supporting this push towards integration, including:

- The London Inter-bank Offered Rate (LIBOR) is an interest-rate average calculated from estimates submitted by the leading banks in London. In 2017, the UK's Financial Conduct Authority (FCA) mandated it to be phased out by 2021 and be fully replaced by Alternative risk-free rates. The purpose is to provide better visibility of interest rates in wholesale markets[1].

- ISO20022 is an ISO standard for data interchange between financial institutions. It promotes communication interoperability through standardised methods. It involves a common repository, a common development methodology and a shared process.

- SWIFT GPI was launched in 2016 with the objective of improving customer experience in international payments. It allows for better transparency and hopes to boost the speed of international payments.

- MiFID II, rolled out on January 2018, is a legislative framework that aims to standardize practices across the EU and restore confidence in the industry by it imposing more reporting requirements and tests in order to increase transparency and reduce the use of dark pools (private financial exchanges that allow investors to trade without revealing their identities) and over-the-counter (OTC) trading.[2]

Real-time payments

Innovation is also driven by the increasing prevalence of faster real-time payment networks. The pickup of instant payments, where consumers have come to expect real-time settlements is accelerating around the globe. It is pushed by initiatives such as the UK's Faster Payments Service (FPS) or Clearing House Automated Payment System (CHAPS) and the Eurozone's TIPS (TARGET Instant Payment Settlement). The US Federal Reserve Bank operates a similar initiative, Fedwire, and other countries such as Australia, Mexico, India and many countries in the EU are also witnessing fast adoption. This is yet another opportunity for growth for many FIs but also a potential threat for those who do not react fast enough and could find themselves left behind.

1 The UK Financial Conduct Authority https://www.fca.org.uk/markets/libor

2 https://www.investopedia.com/terms/m/mifid-ii.asp

Finding the right partner

The environment created by these developments makes it easier than ever for FIs to partner for growth. These partnerships would be primarily fuelled by technical integration. But equally important is the partners' ability to complement each other as businesses and work jointly towards success.

Yet, and as many newcomers have found, if you are a young company, or are introducing an innovative solution that will feel unfamiliar to many people, you might be met by reservations when approaching potential partners.

Some will be naturally reluctant to engage with new players, while others might find that their internal procedures – for example, their bank's risk policies in relation to working with emerging companies – might not allow them to engage with you.

Therefore, it's extremely important when seeking such relationships to find the matches that will be true partners in growth, supporting you with technology but also at other levels.

As mentioned above, a key area to consider could be the partner's risk appetite. Are they more ready to work with you than other providers? Can they potentially extend other services to you such as credit? Do they have capabilities that will help you manage your liquidity efficiently?

Equally, when considering international expansion, one must think about their global footprint. How big is it? Do they have the network and international reach that will support your expansion for many years to come? What payment routes do they offer? What is their currency portfolio? Are they able to settle in different methods? How quickly can they get your payments done? In a fast-moving environment, such agility and the right disposition from your partner could help you win that big contract or reach a market that your competition can't quite get to.

Partnerships and technology, what are the best routes?

So, at a concrete level, what are the options? In every partnership there are multiple angles to consider. In this case you need to carefully pick your technology, but also think about the wider value you will get from your selected partner.

Integration

FIs wishing to integrate with an existing vendor's platform can consider two different models: White labelling or API integration.

Both terms tend to be casually thrown around and the technical terminology can make it difficult to see through both offerings. The table below attempts to describe some of the key differences between them to help you chose the best route for your organisation.

White label	API
The term "white label" is used when a company provides a product or service that can be used by the purchaser under the latter's own brand name. When an FI uses a white label solution, they are effectively utilising a ready-made application which is built to deliver a set of financial services. These would be pre-agreed and put in place with the vendor. It is a "bare" application where the FI is able to add visual features such as brand name, logo, brand colours, page design, and use their own domain name to help build a consistent experience for users, integrating it with their other portals and pages.	An API, or "application programming interface," is a computing interface that defines interactions between different software to make different calls or requests from each other, share data according to set criteria and extend functionalities between them. FIs, particularly fintechs use APIs to connect their applications or platforms to many services, like lending products, cash management solutions and payments networks. This enables them for example to display billing details on a bank's website. By connecting fintechs and other third parties to banking systems directly, they help them to layer their offering on top of a payment provider's infrastructure. As mentioned above, this technology is considered a key component of open banking.

Some of the differences between white label and API are:

	White label	API
Software delivery model	Mostly ready-made. Considered to be BaaS (Banking as a Service).	Custom built or ready-made.
Development requirements	You can select the services you wish to make available and those you do not want to provide. Additional development can be added.	Many vendors will have a set of APIs readily available, designed to connect to their core services. You may choose to build additional functionality via API based on your own requirements.
Best suited for	Recommended for mid-size and small banks, and building societies that wish to provide access to a myriad of services without having to invest in creating the technology and infrastructure themselves.	Recommended for fintechs, digital banks, financial services firms and other market participants who focus on building a rich user experience.
Ease of implementation	Can often be less costly and faster since the solution is largely ready-made.	Timing and ease of implementation will depend on the solution you wish to build and the functionalities you wish to include.

In some markets, larger players can also consider solutions based on SWIFT messaging. Those FIs who already generate their own SWIFT messaging could look to have those converted and included into payment files which in turn get processed through an upload to have payments distributed through a global network.

How to decide on a solution for your financial institution

There are additional considerations when choosing the approach that will ultimately best deliver your products to your customers around the world. International payments are quite complex, and you need a solution that will work on multiple fronts: Compliance, technology, languages, currencies etc. Here are some key elements to consider:

Compliance and regulation

As seen above, regulation has been supportive of mid-size and smaller institutions, helping to keep the marketplace competitive and providing avenues for new players to come in.

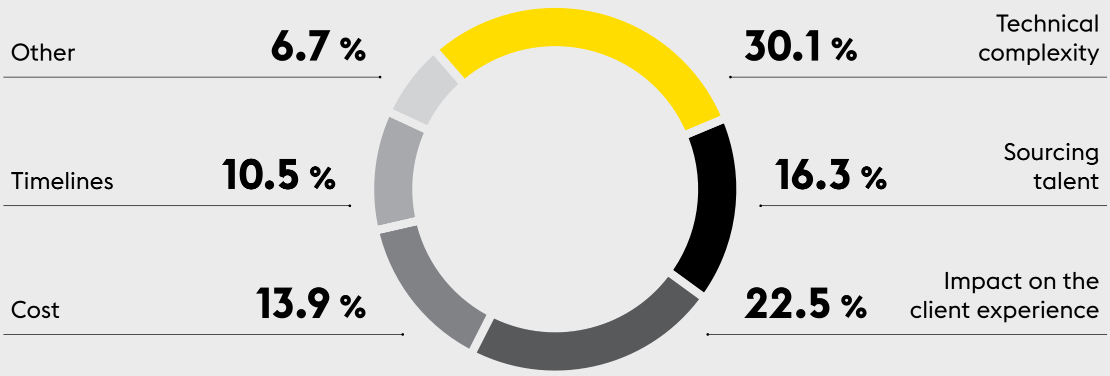
At the same time, remitting funds globally means you need to adhere to regulations, not just those in your own country but also those that apply in your payment destination and potentially other jurisdictions. It is therefore essential when working with potential partners to ensure that they are well versed in those global regulations. Requirements in PSD2, and newer rules such as those related to Strong Consumer Authentication (SCA) which came into play in September 2019 hold FIs of all sizes accountable to the highest levels of internet security standards. These regulations must be abided to, day in and day out, and at key steps in your service delivery. Not having a compliant regime could mean hefty financial penalties, as well as the loss of reputation and customers.

Research conducted by Western Union Business Solutions in 2019 with a global panel of respondents working in the payments industry, highlighted the concern felt in the industry in relation to those compliance requirements.[1]

31% of the survey respondents said that dealing with the technical complexities around new regulations is currently the most significant challenge. The impact on client experience came in second place at 23%. Additionally, resource focused issues – sourcing talent, cost and timeliness also weighed heavily on the minds of market participants.

1 Western Union Business Solutions – Reshaping Global Payments, 2019.

What do you see as the biggest challenge when it comes to implementing new regulations?[1]



Technology

Technology underpins every aspect of your offering. From setting up an easy to use interface, to connecting to third party data, executing updates, processing transactions and creating reports, your technology has to ever be ready to serve your users around the world. It also must be reliable and trusted. With the increase of cybercrime and digital fraud, vigilance must remain high. Not only is it integral to your customer offering, but it is also a compliance requirement, warranted by regulators in many jurisdictions around the world. PSD2, for example, mandates stronger security requirements for online transactions through SCA.

Your chosen partner platform may want to support several authentication methods. Starting with a basic username and password authentication with customisable attributes, such as lockout timing, password expiry days, and minimum number of passwords required before allowing repeated passwords. As per SCA regulations, to further enhance security, systems are required to add a second factor of authentication through a One-Time Passcode delivered via messages such as Email, SMS, or Soft Token. Some solutions can also support a second One-Time Passcode that is required at the time of order submission.

For a more streamlined user experience, SAML 2.0 Single Sign-On, can be part of a fully integrated solution, building on or adding to your organisation's IT security protocols. Single Sign-On allows secure and seamless interaction between an FI's Online Banking and the payment provider, meaning that clients can easily move from their Online Banking session to the provider's platform without having to sign in again and remember multiple usernames and passwords. Look for IP filtering, enabling access to a client's site via specific external IP addresses only.

Languages

As global organisations know, international expansion is best achieved when you can deliver a user experience that transcends continents and language barriers. Any platform you are considering should feature language support for your target markets and have the capacity to add new languages in readiness for your future expansion. Customer support in local languages is also undeniably important.

1 Western Union Business Solutions report produced by bobsguide, Reshaping Global Payments, 2019.

Leveraging a partner's infrastructure to benefit your business and serve your customers

Control over payments

From pricing to control over the order committal process; it's very important to have visibility throughout the process. Your partner solution should connect to your FI's core banking platform, allowing you to check for sufficient funds and debit accounts, but also validate banks and beneficiaries and submit payments online quickly and efficiently.

The ability to effectuate bulk payments may also be crucial in this space to speed up processing time for large batches and enable you to scale to even larger volumes when needed.

Alongside the management of outbound transactions, a good white label or API solution should also help enable you to efficiently receive incoming payments.

Currencies

One can't say international payments without thinking about currency. When selecting a payments partner, check if they support the appropriate amount of currencies you require. Check if clients can benefit from the ability to receive local currency with competitive conversion rates and if foreign payers can benefit by being able to settle in their local currency via a local banking network.

Dedicated service

Powerful technology does remove or significantly reduce the need for manual processing, yet it cannot replace the value of human interaction and quality service. It might be easy, particularly when presented with powerful technology to underestimate the importance of dedicated customer service, but that would be an oversight. As many have experienced, it is crucial to have in place the right level of customer support.

From the start of your working relationship, this can help ensure a proper transition to your new platform and, further into the relationship, it can help make your day to day better. Qualified partner personnel can help you constantly find efficiencies, reduce costs, develop new ideas. They can also play a significant role if you need urgent action or response. More and more providers have put in place a 24x7 "follow the sun" methodology that means their customer service is available to you when you most need it.

Also look for dedicated data privacy teams to help you ensure compliance when handling customer data. Payment security, as discussed above is also critical. A provider with internal functions for fraud prevention and payment security, could be a key ally in your safe growth.

Business continuity planning

As we've seen throughout individual crises, from pandemics to human or natural disasters, payments underpin our economy at all times. Cybercrime is also prevalent: from phishing attacks to ransomware, the threat is real to you and your customers. Depending upon relevant regulations your provider should maintain, review, and periodically update their business continuity programme to help ensure they can keep delivering for you under unforeseeable circumstances.

Future developments

A partnership of the nature that we discussed above is one that should last and be fruitful for many years. When talking to potential partners, always make sure to ask them about their future plans, from a platform and technology perspective, but also at a business level. This can further enhance your thought partnership with them and identify synergies and potential new avenues for collaboration.

For fintechs: how a powerful partnership can support your ascent

Open banking reduces previously significant barriers to entry in the finance space. As fintechs continue to innovate, their challenge is to build up scale and, on the payments front, expand their network to grow their appeal in the marketplace, reinforce their value proposition and help deliver secure and compliant payments around the world.

The opportunity here is significant. Business Insider Intelligence anticipates new revenue potential generated through Open banking-enabled SMB and retail customer propositions to reach £1.9 billion ($2 billion) over the next four years, representing a 25% compound annual growth rate (CAGR).[1]

Yet, the challenges are also sizeable. When you are working to establish a new brand, build your reputation, construct your network, communicate with investors and pursue new clients, it can get difficult to decide which challenges to prioritise.

For example, in the case of E-Wallet providers, that challenge rests at multiple levels. From the business perspective, their primary aim might be to expand their network and add more payments providers to grow their value proposition and appeal in the market, particularly to merchants. To go international, they need to add more currencies and geographies, yet, being new to the market, they may find it challenging to quickly achieve the risk profile that could unlock relationships with some of the major banking providers.

From the technology level – and let's remember that fintechs are mostly tech houses – the needs are the same, aligned to the overall business goals: CTOs have to ensure that their firm can add additional payment providers, ensure the ability to execute across geographies, payment routes and currencies. But those requirements come with the weight of responsibility on the technology team: they have to identify secure and reliable technology partners and balance between ease of implementation and global reach, all at speed.

That's where it becomes important to diversify your network, approach payment providers from different parts of the industry. Those connections can combine to empower you with capabilities that will help you to open new markets or compete with more established players.

1 Business insider "The monetization of Open Banking" May 2019

Conclusion: time for technology fuelled collaboration

The financial services market today is full of opportunities. As a response to the challenges of 2020, and their potential impact for years to come, we can confidently expect the demand for innovative tech based financial services to continue. With regulators actively encouraging competition, and helping open up new capabilities, the time is nigh for financial institutions of all sizes to take their business to the next level.

Partnerships within the sector will help enable many firms to rise to the challenge, particularly around international payments. By effectively collaborating with a global provider, FIs could offer a cost-effective, fast and trusted way for clients to move money around the world without incurring the time or expense to build and maintain a global payments network in-house. By leveraging your partner's global reach and online solutions, the costs of establishing multiple currency accounts, the associated maintenance fees, and the operational burdens of transacting across the world, could be reduced significantly.

In this fast-moving sector, we can expect to see many such partnerships coming to the fore, delivering innovation in products, services and tools. For the market and the end user such collaboration can only mean better services, faster delivery and higher standards.

Let’s talk

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