How banks can fix broken fintech partnership models

EY Parthenon

Building a better working world

> Banks that embrace a structured framework to guide strategy development and execution can improve their odds of partnership success.

Partnerships with fintech firms are increasingly important to banks' efforts to drive growth through innovation and stay relevant in a rapidly evolving marketplace. The problem is banks often are not very good at capturing value from those relationships.

According to the EY-Parthenon 2022 U.S. Banking Strategic Partnership survey, about 40% of all bank partnerships fail to operationalize, mostly due to ineffective strategies, scalability issues and poor organizational alignment. This disconnect between banks' growing reliance on fintech partnerships and their struggles to get more value from those relationships is an emerging concern for many banks, and it is fixable.

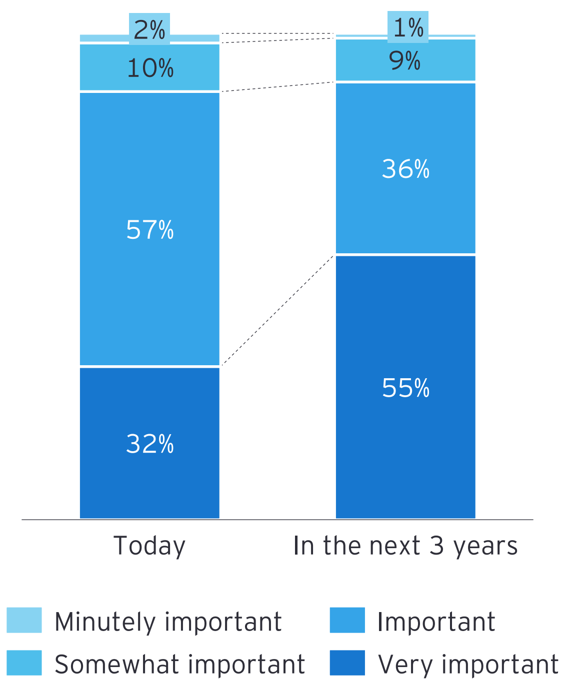
Partnerships can be complicated, touching numerous aspects of the business and involving many stakeholders. Maximizing their value requires coordination and structure. Banks that embrace an end-to-end partnership framework that includes strategy development, partner identification, selection and onboarding, implementation and value measurement will be better positioned to capture the benefits of working with others.

Opportunities: why banks need partnerships

For many banks, partnering with a fineech to access innovative capabilities can be faster, cheaper and more commercially viable than building or buying. At a time when many fintech firms' market capitalizations have declined, partnering also can be a good way to kick the tires on potential acquisition targets.

In the EY-Parthenon survey, 55% of banks expect partnerships to play "very important" roles in their strategies by 2025, compared with 32% of banks today. Another 36% said working with fintech firms would be "important" within three years.

Importance of partnerships to overall firm strategy



Source: EY-Parthenon U.S. Banking Strategic Partnerships Survey

Some specific areas where banks already see tangible benefits from fintech partnerships or are intrigued by potential use cases ...

95% use partnerships to enhance their digital products and reach.

87% use a partner to manage critical processes.

86% use partners to save money and accelerate implementation times.

64% view digital banking and data analytics as areas ripe for future partnerships.

Pain points: why banks struggle with partnerships

Banks have high expectations for what fintech relationships can deliver, but the partnership lifecycle is cluttered with roadblocks that can make achieving those goals elusive. About 40% of the banks in our survey reported partnership failure rates of between 20% and 40%, while nearly one-third had failure rates above 40%.

While partnerships typically stumble due to poor go-to-market strategies or scalability issues, those challenges are often exacerbated by a lack of structure and guidance around the purpose of partnerships and how they are implemented. Key pain points cited by survey respondents include:

Governance framework.

78% of banks say they have difficulty establishing internal partnership governance frameworks. Defining a structured process for how partners interact with the bank and help achieve strategic goals can drive performance.

Operational alignment.

75% say they are challenged to match operational and commercial needs with partnerships. Understanding how a partnership can help the bank achieve strategic objectives can win organizational buy-in.

Partner identification and selection.

64% say they struggle to identify and prioritize partnership targets. Early understanding of factors such as a prospective partner's reputation, technology strength and scalability, and alignment on strategy and incentives can help ensure the right choice is made.

Onboarding.

53% say they have difficulty onboarding new partners. Legacy architectures, paper-intensive approval processes, and poor oversight and support can lengthen the average onboarding timeline to between seven and 18 months.

Relationship value.

50% say they have difficulty overseeing and maintaining partner relationships. Most banks lack the business models and metrics needed to extract the greatest value from partnerships.

What banks can do to maximize partnership value

The growth of fintech partnerships has many banks looking for a more professionalized, agile approach to manage those pain points. Building a partnership framework can be a good solution but is a new discipline for many banks to master. Key actions that can move an institution forward include:

Align strategy and governance.

Embracing a process that ensures partnerships align with and support the bank's broader enterprise strategy can set the table for success. Developing a governance structure to guide the actions of stakeholders can help get everyone in the organization driving toward those objectives.

Understand market opportunities.

Assessing market needs, trends and the competitive landscape and then benchmarking those findings against the bank's internal capabilities can help target opportunities for growth and inform strategy development.

Assess partner readiness.

Conducting a partnership-readiness assessment can provide actionable insights on two important areas: the operational maturity of the bank to execute partnerships effectively and the ability of ecosystem partners to meet the bank's strategic needs.

Enhance partner identification and selection.

Employing a structured partner identification and selection methodology can help identify partners that are the best match. A host of tools, including partner scans, due diligence, and risk and technology evaluations, can help avoid key traps such as conflicting strategies or platforms that won't adequately scale.

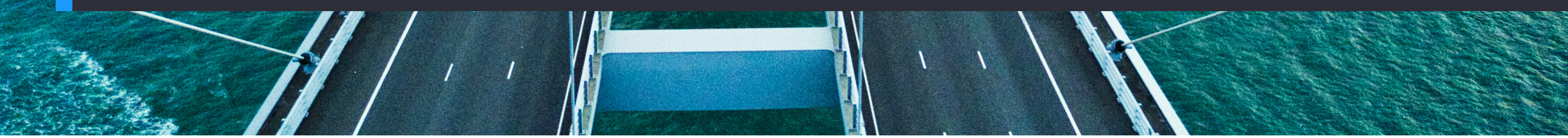
Upgrade technologies.

Investing in technology platforms that allow for flexible collaboration can help integrate partner capabilities more quickly and completely into the bank's systems. For example, using application programming interfaces (APIs) to integrate with partners is crucial to delivering seamless customer experiences, yet many banks lack adequate API capabilities.

Improve onboarding, implementation and value realization.

Building partner-specific business models and refining onboarding processes, including third-party risk management, can help minimize turnaround times and accelerate time-to-revenue. Establishing key performance indicators and benchmarks to assess the performance of partnerships is critical to realizing value.

As the importance of fintech partnerships in driving growth rises, banks that embrace a framework to ensure strategic alignment and guide execution can strengthen their market positions and maximize value from those relationships.



Contacts

Authors

Howard Moseson
EY-Parthenon Americas Banking and Capital Markets Strategy Leader
Ernst & Young LLP
howard.moseson@parthenon.ey.com
+1 917 696 0134

Mohammed Akuma
Senior Director, Strategy-Fintech
EY-Parthenon
Ernst & Young LLP
mohammed.akuma@parthenon.ey.com
+1 212 773 4199

Contributors

Eric Court
Executive Director, Strategy and Transactions, TCF-Valuation, Model & Econom
Ernst & Young LLP
eric.court@ey.com
+1 201 551 4256

Drew Schilling
Director, Strategy and Transactions, EYP-Strategy
Ernst & Young LLP
drew.schilling@parthenon.ey.com
+1 212 773 9350

Fred Tamarkin
Consultant, Strategy and Transactions, EYP-Strategy
Ernst & Young LLP
fred.c.tamarkin@parthenon.ey.com
+1 201 551 6077

Will Hapeman
Consultant, Strategy and Transactions, EYP-Transaction Strat & Exec, EYP - Transaction Strat & Exec
Ernst & Young LLP
will.j.hapeman@parthenon.ey.com
+1 312 879 3975

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