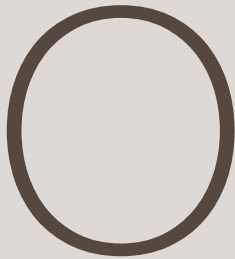


Sharing the risk

Partnerships between fintechs and financial institutions are the future, say lawyers **Adrian Rainey** – Partner, and **Lucy Marshall** – Business Development at Goodwin



Once upon a time, traditional banks looked at fintech companies with concern and labelled them “industry disruptors”. But as the world has evolved and the pandemic has shifted the tech sector into top gear, financial institutions now view fintechs as valuable partners that are essential to their business.

The way people manage their banking has been completely redefined over the last 10 years with the increased use of mobile devices and the demand for everything to be at your fingertips. The development of the cloud enables information to be accessed from any device connected to the internet, allowing

quick transactions and providing real-time access to banking information. Long gone are the days of waiting for your account balance to update overnight.

There is also a heightened awareness of data security. In Goodwin's recent international fintech survey – which polled more than 700 global business leaders about market trends – nearly half ranked cybersecurity as the largest threat. This is perhaps unsurprising given financial institutions have been frequent targets for hacking and data breaches in recent years. With this in mind, for those firms that don't have the resources or knowledge to improve data protection in-house,

working with fintech companies who have an in-depth understanding of protection becomes essential.

Stepping away from security, a fintech company's ability to specialise and innovate in a specific aspect of financial services makes these partnerships appealing to financial institutions. Banks, for example, will use these partnerships to accentuate and improve specific aspects of the banking experience for their customers without needing to embark on the costly and time-consuming journey of designing and implementing new technology in-house. On the flip side, fintech companies will ►

benefit from the banks' regulatory compliance expertise and familiarity with financial rules and regulations, as well as the large customer base already affiliated with established banks and financial institutions.

So, what form do these partnerships take? One common option is for a fintech to lease a financial institution its program, under a software-as-a-service (SaaS) model, whilst another is to use a referral model. The partnerships offer the ability to scale up or down depending on consumer response and needs, adding or

removing features and services. Collaboration and partnerships between fintechs and financial institutions go beyond increasing revenue; they allow them to harness behavioural information and use the technology to capitalise on customer trust and provide services that actively engage with consumers.

It is clear that we will continue to see a growing number of these partnerships taking place, and this will likely be accelerated by the COVID-19 pandemic. This context has provided an opportunity

and a reason for people to try fintech tools that they may have otherwise avoided, as people increasingly step away from the high street.

Whilst consumers may not ditch their physical bank branches indefinitely, they will have seen the benefit of these digital services and will increasingly demand the option to use them. This will continue to reaffirm the importance of collaboration and partnerships between fintech companies and banks for the future of the financial services industry. ■

