

Banking on Innovation

The case for collaboration between banks and fintechs



Banking & Payments
Federation Ireland

**Banking & Payments Federation
Ireland (BPFII) is the voice of banking
and payments in Ireland.**

Representing over 100 domestic and international member institutions, we mobilise the sector's collective resources and insights to deliver value and benefit to members, enabling them to build competitive sustainable businesses which support customers, the economy and society.



It is sometimes easy to take for granted all the fantastic technological innovations over the past few decades that have made it so much easier, faster and cheaper to do things, particularly when it comes to managing our finances.

I try to imagine what the reaction would have been if someone had told my predecessors in the 1980s that in the future, it would be possible to do most of their banking without going anywhere near a branch, using a yet-to-be-invented smart phone that would fit in their pocket.

My role as president of BPFII gives me the privilege of seeing the wonderful ideas, ambition and passion that are driving the next leaps forward in our industry – both in the technology that customers see and use for themselves, and in the technology used within the banks.

And what is giving me even greater confidence in our collective ability to make progress is the level of co-operation and collaboration I am seeing between innovators in banks and innovators outside them. This is clearly evident when one looks at the findings in BPFII's Innovation in Banking survey that we conducted recently and which are detailed in this report

Retail banks have collectively invested over €3bn in the past five years in technology and innovation, and over €400m of that has been invested in partnerships with fintechs, a third of which were Irish firms.

Our study has borne out my own experience that Irish fintechs operate to a world-class standard and can compete comfortably with fintechs from other countries. A strong indigenous fintech sector is good for the companies themselves, it is good for Irish banks, it is good for Ireland's economy and its reputation for innovation. Most importantly, it is good for our customers - because they can have confidence that the final offering we provide is going to be of very high quality, informed by the highest levels of innovation and expertise.

Eamonn Crowley

President, Banking & Payments Federation Ireland

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Perhaps the greatest transformation in financial services in the last five years has been the digitisation of the economy and the rise of fintech (defined by the European Commission as ‘technology enabled innovation in Financial Services’). This started with the emergence, and eventual domination of the smartphone and the ground-breaking user experiences developed by Apple. The iPhone transformed customers’ expectations of how services should be delivered to the degree that when today’s customers evaluate financial institutions, they don’t compare banks, they compare experiences.

A major challenge for banks globally has been how to service the new digital demands of their customers, who have come to expect real-time, on-line services with mobile being the primary channel. To meet this challenge, banks have had to radically re-engineer their core legacy systems and the processes built around them. This technical and cultural transformation has been taking place over the past several years, largely out of sight of customers looking in from the front-end. Big digital programmes such as the migration to Cloud infrastructure, implementing Open Banking and the develop-

ment of API delivered services, have transformed the capabilities of the core infrastructure. Keen to leverage these investments, Banks’ focus has now shifted to delivering fully digitised products and experiences for customers. It is against this backdrop that collaboration between banks and fintech has come into its own.

Irish Banks and Fintech

As evidenced in our survey, Banks in Ireland have come to recognise the many benefits of being able to partner with fintechs, particularly as they often have deep expertise at the crossroads of technology and finance. Fintechs also tend to embrace newer technologies (such as Artificial Intelligence and Biometrics) and operate with smaller teams capable of developing solutions faster than otherwise achievable.

Collaboration and partnerships with banks can also bring real benefits for Irish fintechs. Many are discovering the significant cost and difficulty in building a customer base from scratch while maintaining compliance. These are areas of great strength and expertise in banks, who typically have the scale

in terms of customer base and trust, along with the experience of operating in a highly regulated environment. Working with a bank can remove many of these challenges for a fintech while perhaps also bringing some much-appreciated funding. Together, there are rich opportunities for partnership.

While the bank-fintech relationship is increasingly collaborative in Ireland these days, similar engagement is taking place with big technology firms (BigTech). Taking cloud migration and advanced data analytics as examples, it is the 'BigTechs' that are often providing those services for Irish banks. And while BigTechs themselves have started to become more directly engaged in the provision of Financial Services, it is most often in partnership with banks, who underwrite the financial element of these activities, in a fully compliant way.

Behind the scenes, many other players, often in partnership with banks, are using new technologies, to automate, digitise or otherwise replace costly processes vital to the delivery of financial services. Firms operating in Ireland such as TrueLayer, ID-Pal, Circuit, Stripe, TrustAp, TransferMate, Grenke, Accelerated Payments and others have been busy taking the friction out of banking and payments and generally helping to make business and ecommerce flow more freely.

These firms form just part of the vibrant fintech scene that has developed in Ireland. We have been 'punching above our weight' when it comes to fintech, not only in the strength of domestic firms, but also with international firms who are attracted to using Ireland as a pan-European base. This is probably no surprise, given Ireland's existing and substantial Financial Ser-



vices and Technology sectors, which provide a deep and resourceful talent pool.

Irish banks have also been very active in engaging with Fintech incubators. AIB and Ulster Bank have been active supporters of innovation in dedicated co-working offices at PorterShed in Galway and Dogpatch Labs in Dublin respectively. Bank of Ireland also opened their own Innovation Lab on Camden Street, Dublin. Meanwhile Permanent TSB and KBC in Dublin initiated dedicated Fintech Hubs developing products and services for their customers and other offices



In June 2021 BPFi conducted a survey among retail banks to quantify the level and nature of their engagement and

collaboration with fintechs. The results spotlight the extent to which this collaboration is bringing benefits for all stakeholders and shows how it is acting as an accelerant for innovation in the Irish Financial Services sector.

What next for Collaboration?

We now appear to have entered a new phase in the way in which banking services are being developed. The trend amongst the banks to work with and partner with emerging technology companies continues apace. These partnerships are also driving greater cost efficiencies and faster times to market. By playing to the respective strengths of the banks and Fintechs, both can realise real benefits, while at the same time delivering greater value to customers.

There is no shortage of opportunities on the horizon for collaboration and partnerships between banks and fintechs. For example, the incorporation of artificial intelligence and machine learning tools into data analysis is becoming increasingly important for banks in meeting their regulatory obligations. While Big Tech companies are making most strides in the development of suitable AI algorithms, an increasing number of fintechs are developing interesting models which are



attracting attention from the banks. By harnessing the dedicated knowhow of the fintechs, banks are also using data to enhance customer experiences, for example by providing advanced money management and budgeting tools.

In similar fashion, banks are increasingly looking to fintechs to explore ways of managing the data they hold to help meet their increasing Environmental, Social and Governance (ESG) obligations.

Identity verification and management is an essential enabler across much of the economy as digital onboarding and servicing goes mainstream. The banks will play a key role as custodians and authenticators of customer identities but will need to develop adaptable platforms and new services and many will look to fintechs to achieve this. Benefits for customers will include being able to open bank accounts and access more financial services seamlessly.

The increasing cost and complexity of compliance is driving a boom in RegTech and this need will continue to grow as all providers of financial services grapple with ever-changing and complex regulations.

Blockchain as a core technology is gaining momentum in payments, regtech,

and identity. We can expect services to start to migrate to this new technology in much the same way as Cloud technology was adopted, in the background.

Our survey of Innovation in Banking survey demonstrates a healthy and vibrant financial services scene in Ireland. The degree of collaboration between banks and fintechs is extensive, as both work to solve customer needs for mutual benefit.

The potential of this cooperation was recognised as far back as 2017, when BPF and the Fintech and Payments Association of Ireland (FPAI) became affiliates under one roof. This development, the first of its kind in Europe, has helped nurture and foster ongoing engagement between banks and fintechs.

Change and evolution will be constant features of financial services for years to come. The degree of collaboration between banks and fintechs in Ireland augurs well for the future of retail banking in Ireland. While this will provide ongoing opportunity for banks and fintechs the real beneficiaries will be customers and the wider economy.

Digital Assets – is this the future of Finance?

Distributed ledger technology (DLT) has the potential to fundamentally transform how the financial system operates. Although DLT is most immediately associated with cryptocurrencies, such as Bitcoin, it could create efficiencies in other, more traditional, areas of finance. For example, the International Swaps and Derivatives Association has been examining the use of smart derivatives contracts based on DLT. International trade finance and the settlement and custody of financial instruments may also benefit from the unique attributes of DLT.

However, DLT raises a number of concerns. Certain services utilising DLT have failed to adequately address AML and CFT risks. There are also well-founded concerns regarding consumer and investor protection, and the damaging environmental effects of crypto ‘mining’.

In April 2021, new AML/CFT legislation came into effect in Ireland. The legislation requires virtual asset service providers (VASPs) to register with, and be supervised by, the Central Bank. This is a welcome and significant contribution to the ‘mainstreaming’ of digital assets. Notably, the requirement to register applies to anyone (including existing licensed entities such as banks) providing certain exchange, transfer, custody or financial services relating to virtual assets. This legislative regime along with EU developments on the horizon, especially the proposed Markets in Crypt-assets Regulation, present Ireland with a golden opportunity to become a European hub for digital assets activity.

Josh Hogan
Partner, McCann Fitzgerald





Innovation in Retail Banking

A BPFi Survey of Irish Banks

Key Findings

In the last five years, Irish retail banks collectively spent over €3bn on various technology programmes aimed at improving and digitising their key systems and services. These large infrastructure projects have included transformation of domestic and international payment platforms, upgrade or replacement of branch accounting systems, new and enhanced digital channels, various Open Banking projects and migration of services to the cloud.

"We are always interested in meeting fintechs that have propositions in areas like lending, payments and Regtech"

While most of this spend was focussed on 'core systems', according to the survey some €400m was spent innovating and collaborating with new providers who operate in Financial Services using latest technologies ("fintechs"). These engagements were made with over 100 fintech firms, a third of whom were Irish. Most of this activity was in the form of commercial product pur-

chase, which gave rise to recurring contracts, running into tens of millions per annum.

Other engagements were by way of direct equity purchase, formal co-branding partnerships and indirect investments done through specialised funds and Venture Capital schemes which seek "emerging technologies addressing common problems in Financial Services".

The main reasons cited by banks for engaging with fintechs are:

1. To enhance customer propositions and experiences.
2. To develop new and complementary products faster and more effectively than could be developed in-house.
3. To drive cost efficiencies through partnering, outsourcing and co-branding.
4. To advance their capabilities and ultimately gain competitive advantage.

Banks have also partnered with and provided support to various incuba-

tors and Fintech Labs which provide dedicated support to fintechs at start-up and scaling stage.

The nature of this activity demonstrates increasing willingness by banks to look outside their own organisations when looking to innovate. Where once banks might have been sceptical of engaging with third-party providers, the survey results show that they are

in fact seeking to engage with fintechs, especially if they can solve problems faster or more efficiently than they can themselves.

For fintechs also, this shift presents potential opportunities to work with incumbent financial institutions. Their unique expertise, often in niche or specialised areas of finance, makes them attractive options to enhance banks'

Case Study – permanent tsb & CreditLogic

PTSB was keen to improve the mortgage journey for its customers, both in terms of the application procedure and the subsequent fulfilment process. Through its in-house Digital Team, it identified CreditLogic, an Irish banking software company that's about three years old.

CreditLogic was able to bring its ability to provide a facility called "Lending as a Service" – a significantly more straightforward process for originating a loan, which ultimately will make it easier for the bank's customers to make the journey from loan applicant to homeowner. This partnership has resulted in a multi-year agreement which will see the firm provide a white-labelled digital platform that mortgage customers and mortgage advisors can use.

The underpinning technology of CreditLogic has tapped into Open Banking and uses both Artificial Intelligence and sophisticated analytics tools to create something that makes life easier for PTSB and its customers. It allows customers to search for the right mortgage, check that they are eligible for that mortgage, and take them through a five-step process to complete their initial application in five minutes or so.

This overall approach by PTSB reflects an increasing willingness to engage and collaborate with fintechs to solve customer needs.



products and services. In a typical example, one of the banks surveyed had a need to address a technical problem with their customer on-boarding system. In theory, it could have developed a solution itself, however, following analysis of all options, it identified an Irish firm that had an ‘off-the-shelf’ solution, ready to go. Some weeks later, and a lot sooner than the bank could ever have done itself, the solution was successfully implemented.

“We had a requirement to get something tactical to market quickly. Rather than develop in-house we spotted an opportunity to work with a fintech who had a ready-to-go solution – it did the job”

All banks surveyed have dedicated in-house teams which perform ‘horizon scanning’ to identify suitable opportunities and fintechs to innovate with. These teams often liaise with internal business units to identify the trends and strategic priorities that affect their products offerings. This included tracking developments with new and emerging technologies such as quantum, distributed ledger technology (DLT) and Data Modelling.

All banks also use their main technology providers and traditional business networks to engage with Fintechs and deepen their awareness of developments in technology in Financial Services.

“We always consider and evaluate Irish fintechs first when looking for any given solution, and it’s only if they don’t exist or are not sufficiently developed that we look further afield”

Some banks used the “marketplaces” and ecosystems created by their larger technology providers as a source of fintech engagement. In one example, an Irish bank deployed a fraud management system developed by a fintech, which had been ‘curated’ by a big technology firm.

A more recent approach to fintech engagement has been developed by BPFi with its ‘Fintech Showcase Series’. These engagements, in a roundtable setting, provide a platform for banks and fintechs to come together to discuss latest developments and opportunities to collaborate, using real-life case studies. Initial themes explored included Digitising the Mortgage Process, eConveyancing and how technology can assist banks maintain compli-

ance with regulations.

The survey results also signal a growing appetite amongst banks to collectively work with fintechs to solve common problems and challenges such as customer identification and AML. Rather than individual banks developing individual solutions to challenges (such as meeting common regulatory requirements), they are keen to explore if 'utility' style services could be used. This trend is likely to grow and will provide opportunity for fintechs active in this area.

Banks' investments in fintech spanned a broad range of services including:

- Lending, including credit scoring
- Electronic Identification solutions
- Card-related services
- Biometrics and AI for account opening and customer support
- Regtech (technology to assist Banks meet regulatory requirements)
- Wealth Management
- Data Insights for personalised marketing
- Digital Banking and customer experience enhancements

Although Irish banks tend to use large technology providers for their 'core' accounting and payment systems, they do see fintechs of growing importance to all the downstream services that they provide. It is the case that banks are also mindful of EBA guidelines that govern the outsourcing of critical activities, which can inhibit their ability to engage on certain services.

"We tend to lean towards fintech when we have a need to tackle a problem because we know that is probably the quickest way to implementing a solution"

The results also reflect banks' interest in new technologies, such as AI and Biometrics, where fintechs have an obvious advantage. In one example, a bank deployed the expertise in Data Analytics of a fintech in order to provide its customers with more meaningful and relevant advertising, based on their actual activity within its banking app.

Another interesting observation from the survey is the changing approach to innovation occurring across all the banks. Where once there was an emphasis placed on ensuring every engagement succeeded, with little tolerance for failed attempts, we are now



seeing a far greater willingness to experiment with proof-of-concepts and accept that some initiatives may not progress into service. This 'fail-fast' approach to innovation was once a key differentiator of the Big Tech companies and other 'born on the Internet' firms. This approach also benefits the smaller fintechs who quickly get a decision on whether a particular engagement will bear fruit rather than waste time and money on a venture which will ultimately not progress.

Underpinning much of this collaboration is the fact that for the most part, banks have retained customer trust. This has translated into a certain 'stickiness' amongst their customers, who even if they use other products provided by newer players, tend to keep the basic bank account with traditional banks. Fintechs who recognise this have spotted the opportunity to work with banks to provide services used ultimately by their customers.

Case Study – AIB & Boxever

An engaging interaction can be the difference between missing an opportunity and winning a customer. In recognition of this, AIB is driving a continued evolution of implementing Personalisation into all our customer engagement. As an organisation that always seeks to put innovation at the heart of what we do we look to partner with companies that help us to drive that innovation and turn ideas into tangible deliverables. We have partnered with Boxever to assist us in our Personalisation agenda and have introduced their technology into our marketing and communication stack to transform our CX.

Boxever has helped us to deliver smart personalisation across multiple channels. With their technology we have enabled an "always on" customer engagement engine, curating and presenting personalised, real time content to optimise our customer contact decisions.

This survey was conducted between 17 May and 4 June.

The survey took the form of one-to-one interviews with senior executives in Irish retail banks, typically with responsibility for Innovation, Technology, Partnerships and major Digital Programs.

Aside from the featured case studies, individual bank responses have been anonymised and all figures quoted are aggregated.

Case Study – KBC & Tap2Invest

KBC have changed the way consumers plan for retirement and engage with pensions bringing an innovative in app pension experience to market. Additionally, with “Tap-2-Invest” KBC created an accessible and simple to use execution-only investment app. These innovative digital solutions tackle a considerable amount of traditional challenges associated with pensions and investments and are easier to set up, manage and invest in.

Lavinia Morris, Innovation Leader for KBC Ireland commented: “These products were only made possible by blending KBC Asset Management experience with innovative technology, realized through a unique joint venture between KBC and Objectway - a leading Digital Wealth & As-

set Management software company. KBC partnered with Objectway to create a new, separate Fintech called everyoneINVESTED – not only offering digital investment solutions directly to KBC Group but also to professional asset managers beyond KBC Group’s home markets”

everyoneINVESTED worked as a startup, with ringfenced investment and greenfield design: from JV set-up to product launch spanned 20 months including all regulatory approvals. This uniquely KBC way of “doing differently” has created 2 new product lines in less than 2 years and offered our customers real innovation with solutions that empower them to make better financial decisions

Case Study – Ulster Bank & Circuit

At Ulster Bank, innovation is not just a word; it must provide meaningful help for our customers. When we first met Circuit, we were excited because we knew they had the potential to offer real benefits to businesses. We were also delighted to offer the support of the Ulster Bank innovation team, which is based shoulder-to-shoulder with the Fin-Tech community in Dogpatch Labs in Dublin.

We were very pleased to take this support one step further and link

up directly with Circuit to offer our customers this fast, safe, and secure online audit tool. Their solution had a major focus on security, but also on design, and got the job done in a highly efficient manner that users have come to expect in their daily application.

It was a great example of Ulster Bank's investment in innovation, and we look forward to continuing our partnership with Circuit in the future.



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