

# Reimagine Financial Services: Harnessing the Ecosystem



# How partnerships can boost your strategic potential

By Lucine Tatulian



The Financial Services sector is going through a phase of strategic redefinition, powered by evolving customer needs, emerging technologies and a growing number of more nimble and agile FinTechs and BigTechs. To remain competitive and find new sources of profitable growth, banks can no longer manage the degree of change required on their own.

## How can banks make the most of the potential?

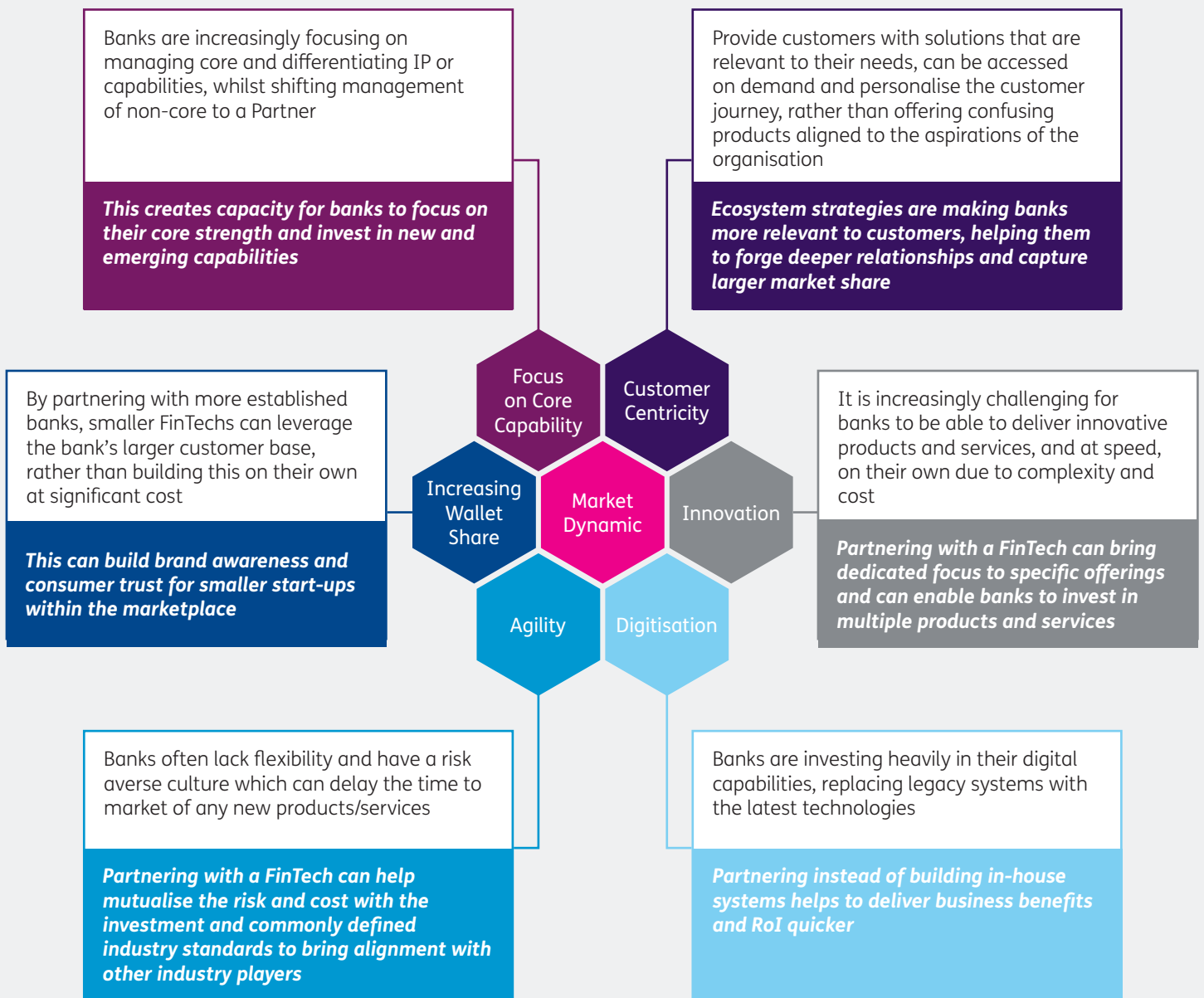
The concept of financial services institutions evolving to construct a more holistic ecosystem of both bank and non-bank players has been very topical over the past few years. This has significantly picked up pace as banks try to tackle key market trends and deliver greater competitive advantage.

From online marketplaces to collaborative innovation, ecosystems enable multiple partners to pool their capabilities and offer more choice and better outcomes, in a more customised way.

Part of the reason that ecosystems are forcing their way up the strategic agenda is the need to step up the pace of digital transformation. Modernising the systems architecture of a large financial institution is a difficult task and progress has been mixed. The challenge is made harder by the speed with which technology is advancing - and as the competitive bar keeps rising.

Harnessing the innovative tech applications and data analytics techniques developed by FinTechs could be cheaper and easier than doing this on their own by overhauling legacy systems and building data-enabled insights and decision-making.

Market trends driving the need for greater ecosystem collaboration



## Reshaping business models

Application programme interfaces (API) and open architecture allow partners to patch into each other's services virtually at will. This means that financial institutions can concentrate limited resources on core strengths while using partnerships to meet non-core demands. With many of the potential partners being smaller FinTechs, they in turn can tap into larger institutions' customer bases and brand recognition while building up consumer trust.

By extending the breadth and relevance of the offering, ecosystems are an opportunity to shift from developing and marketing products to creating a compelling customer journey and a genuinely customer-centric set of solutions.

## Three ways to get ahead



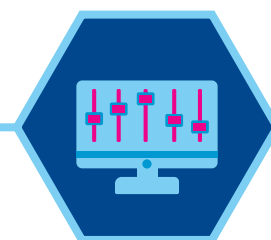
### 1. Identify business objectives

The first step in developing an ecosystem-enabled operating model is to identify clear strategic objectives, rather than simply following a market trend. Having clarified the aspirations and how you intend to compete, you can assess and address the impact on critical functions like Operations, IT, Legal, Risk and Compliance.



### 2. Determine what stays in-house and what is accessed externally

Once the strategic objectives are clarified, it's important to recognise that some capabilities can just as easily be accessed externally as in-house. You no longer need to be strong in every aspect of service provision. Instead, it's important to maximise core value creation capabilities in-house, while buying non-core capabilities as a service. API-enabled architecture and open access to data makes partnerships easier to set up in a secure and controlled way.

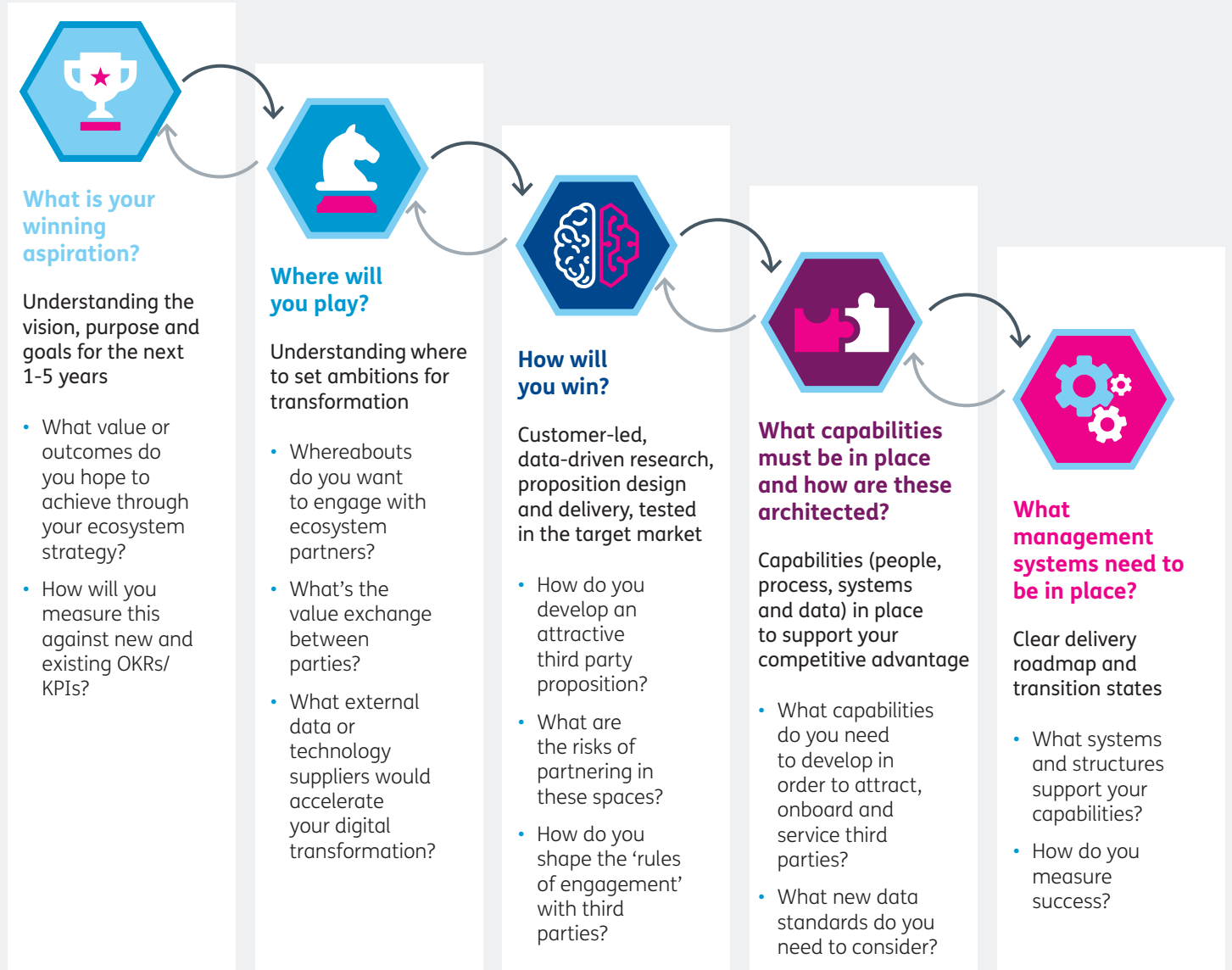


### 3. Set parameters for engagement

Ecosystem partnerships can be beneficial to all entities involved. However, they need to be implemented strategically and managed effectively. Having identified clear strategic objectives for the ecosystem-enabled model, it's important to define the parameters for engagement and cultural alignment. Solutions need to be developed around each partner's unique offering and address their specific business challenges. The partnership also needs to consider strategies to actively nurture relationships beyond contract terms.

## Five questions to help position ecosystems within the context of the broader organisational aspiration

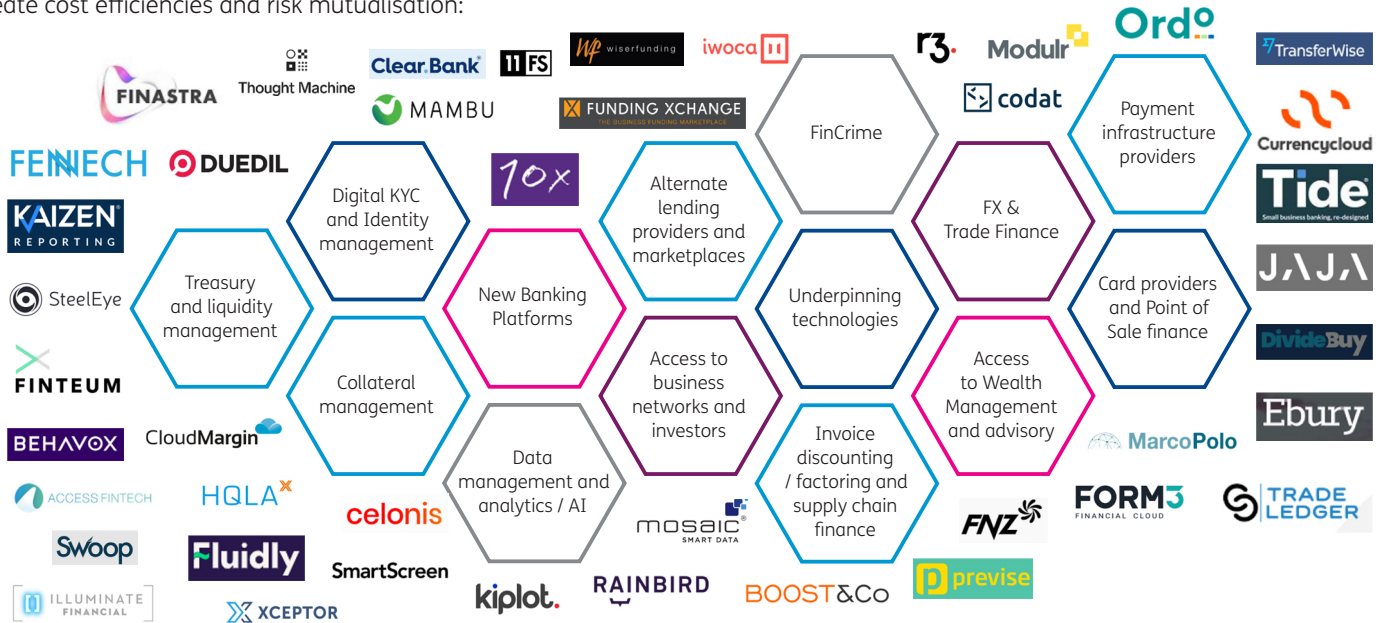
### Strategic Choice Cascade\*



\*Reference: Roger Martin's "Strategic Choice Cascade"




The role of the financial institution will also evolve. Within banking, for example, FinTechs and BigTechs are capturing more and more of the value chain, providing services such as payments, cash management and other aspects of the trade lifecycle. The bank of the future will need to combine internal capabilities with external innovations to be a value aggregator. Adopting an ecosystem-enabled operating model calls for firms to relinquish the in-house service delivery model and use the capabilities of ecosystem partners to create cost efficiencies and risk mutualisation:




### Key considerations for implementing effective partnerships

Ecosystem partnerships can be beneficial to all entities involved, however they need to be implemented strategically and managed effectively. Once Banks have identified the clear strategic objectives for the ecosystem enabled business model, parameters for engagement need to consider cultural as well as strategic alignment around the solutions to be co-developed. The partnership also needs to consider strategies to actively nurture relationship beyond contract signatures.

#### Strategic alignment

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**Roles and Responsibilities**

Ensure operating model and service level agreements and escalation procedures are established upfront and continue to be monitored through the right set of metrics
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**Cultural Fit**

Selecting a partner can typically focus predominantly on the product or the service offering, however as the partnership needs to be authentic from a customer point of view, alignment around culture and values are equally important
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**Performance Monitoring**

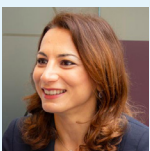
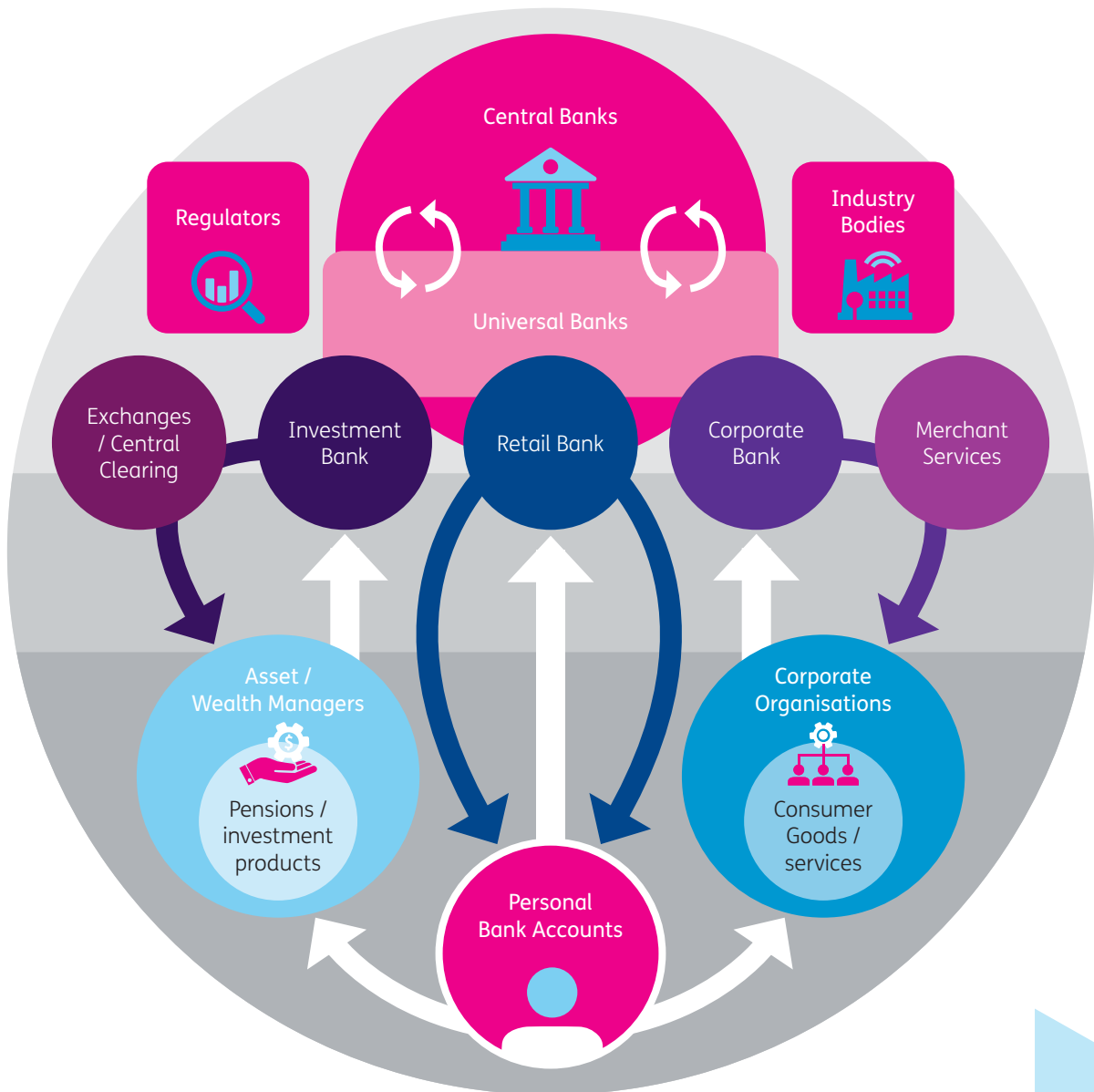
It is key to determine and agree a specific set of objectives and desired outcomes upfront. This will help ensure the relationship starts off as mutually beneficial and continues as such throughout the duration of the partnership. Managing partner performance is fundamental to assuring anticipated returns from the ecosystem partnership are realised
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**Customer Experience**

Creating a seamless customer journey is essential. Receiving unsatisfactory customer experience, like being transferred from one team to another will often influence customer loyalty. Education and communication are key so that teams dealing with customers understand the end-to-end offering, which should also incorporate the partner's capability and process

#### Actively nurturing partners

## Ecosystems in action

Ecosystems have significant potential, but how you operate and go to market are fundamental. Each partnership is different, with a unique set of considerations to be identified and assessed to ensure success. This is a complex and crowded landscape but, if done right, a partnership can provide significant value to all parties. Choosing how to participate based on the strengths of the partner, the existing operating model and the wider digital transformation objectives will be the defining factor.



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