

# Fintech-Insurtech Partnerships: Driving the Evolution of a Hybrid Financial Services Ecosystem

## Abstract

Fintech and insurtech ecosystems are rapidly evolving with banking, financial services and insurance (BFSI) organizations partnering with these entities to develop offerings with differentiated features. However, this partnership ecosystem often does not deliver the expected business outcomes owing to the challenges faced by both the incumbent organizations and the start-ups. Moreover, incumbent organizations are leveraging the startup ecosystem without a holistic view of the entire product or portfolio value chain resulting in extensive overheads in governance, integration, and solution management. BFSI organizations need to adopt a long-term strategy considering their business objectives, target customer segments, and their large transformational programs to lead into hybrid ecosystem of assembled and proprietary solutions.

This paper discusses the ways BFSI organizations can orchestrate this partnership to create a mutually beneficial collaborative ecosystem and successfully achieve their business aspirations.

## The Rise of Fintechs and Insurtechs

Customer expectations around well-designed, niche digital offerings, superior experience and engagement are continuously increasing. Fintechs and insurtechs are successfully meeting this demand cost effectively and efficiently by leveraging digital enablers such as mobile, internet of things (IoT), data analytics, artificial intelligence (AI), social platforms, cloud and blockchain. In the process, they are reinventing the products and services offered in the BFSI space, especially in the areas of delivery, access, and experience. The exponential growth of the fintech and insurtech ecosystems can be attributed to the evolution of new customer segments and business models as well as emerging technologies; new offerings from banks and insurers, regulatory dynamics, and new sources of data and services. Fintech and insurtech activity is predominant in lending (peer-to-peer, alternate underwriting), mortgage (digitization, faster fulfillment), personal finance (save, manage, track bills and accounts), payments (subscription billing, processing), insurance (claims, distribution and brokerage), and wealth management (analytics and AI based tools).

Incumbent BFSI organizations, on the other hand, are constrained by legacy infrastructure and increased effort and cost of regulatory compliance, which is diverting their attention from new product and service innovations. Despite this, BFSI organizations are responding by adopting various approaches: investing in or acquiring startups, launching accelerator programs for solution incubation, partnering for proofs of concept (PoCs), acquiring licenses to use white-labelled solutions and launching fintech and insurtech subsidiaries.

## Partnership Evolution between Incumbents and Fintech/Insurtech Players

Initially, fintech and insurtech players were perceived as a threat by industry incumbents. However, as the ecosystem matured, startups realized that they could also white label their technology and offerings to BFSI firms instead of competing with them to acquire end customers. Over time, incumbents also changed their perception and began to explore opportunities to collaborate with startups to achieve mutual objectives of innovation and growth.

We work with a number of leading banks and insurers in almost every geography. Our on-ground observations and interactions with the top BFSI players have lead us to believe a majority of the partnerships between incumbent banks and fintechs are collaborative in nature while the partnerships between insurers and insurtechs are predominantly about investments. However,

insurers are also increasingly collaborating with insurtechs to expand their portfolio with digital offerings enabling niche features that deliver value to customers. Our experience in facilitating such partnerships and system integration reveals that a majority of such deals by incumbents are directed towards improving customer experience, increasing internal efficiency, and enhancing distribution services.

In our view, fintech and insurtech startups will be embedded within the future BFSI ecosystem along with other participants like market utilities, vendor platforms, IT service providers, and market infrastructure providers. Fintech and insurtech solutions are new, niche, and innovative, enabling incumbents to complement their existing portfolios with an ecosystem of partner solutions and create exponential value for the end customers. However, BFSI organizations will need to embrace the risk associated with partnering with smaller start-ups without established market credibility. It is therefore important for the BFSI organizations to decide after a thorough evaluation of the benefits from instant access to innovative, ready-to-launch offerings that such partnerships will afford against the risks involved.

## Role Play in the BFSI Ecosystem

While BFSI organizations have been partnering with startups, these partnerships are often a little rushed without adequate due diligence. Incumbents often fail to assess technology solutions and their fit into their overall IT landscape resulting in below par business outcomes. Fintech and insurtech offerings may require customization to the needs of the incumbent firms to address specific opportunity areas that may also extend beyond banking and insurance. Additionally, integrating these solutions into the complex legacy application infrastructure of the incumbents and ensuring adequate governance, management, and maintenance will be a challenge. Furthermore, a successful transition from a closed and proprietary IT landscape to a hybrid, assembled ecosystem leveraging third-party solutions requires a holistic view of business capabilities for each product and portfolio. This will involve end-to-end assessment of the value chain, development of reference architecture for a hybrid ecosystem, and remapping of application level KPIs to ecosystem level KPIs, all of which come with challenges and complexities. However, this process poses a series of challenges for both incumbents and the startups. (see Table 1).

BFSI organizations must therefore consider partnering with an IT service provider to evaluate the fintech-insurtech ecosystem and identify the right entities to partner with to enable collaborative and sustainable partnerships. Service providers have a lot to offer: technology uplift and IT re-architect

program implementation expertise, contextual and domain expertise, experience in agile and DevOps practices, and teams with cross-functional know-how. Partnering with a service provider will also help incumbents execute PoCs and seamlessly integrate fintech and insurtech offerings into their application landscape to unlock maximum value.

With experience across industries like retail, healthcare, automotive and so on, IT service providers are well-positioned to integrate the diverse capabilities and solutions to offer connected services and ensure long term governance, management, and maintenance. By leveraging the wide ranging expertise and global experience of the service providers, incumbents will be able to ensure delivery of cost effective, faster, and smarter solutions to the market.

| Challenges faced by startups   | IT service provider offerings  | Challenges faced by incumbents  |
|--|--|---|
| Difficulty in understanding the complex legacy IT infrastructure of incumbents   | Decomposition and decoupling of legacy infrastructure and services and creation of application programming interface (APIs) for modularity and integration | Startups' expectations around modular business services via APIs and micro services               |
| Incumbents' perception of startups as a 'drop in the ocean' and consequent bullying  | Agile and DevOps culture; creating a unified team with a single culture across stakeholders with cross pollination of best practices                       | Lack of agility and culture incompatibility create roadblocks in working seamlessly with startups |
| Limited resources and bandwidth to customize and integrate solutions into incumbents' landscape adversely impacting time-to-market for new offerings | Scalability for fintech and insurtech entities to enable customization   | Lack of ongoing support and maintenance for fintech and insurtech solutions post launch           |
| Unavailability of a sandbox environment for demonstrating with real data and integration   | Contextual domain expertise and regulatory knowledge to test the solution in sandbox environment   | Startups' lack of knowledge of data privacy and security regulations                              |
| Unable to scale and introduce offerings for diverse use cases - inability to show value creation for end customers                                   | Collaborate and co-create new use cases leveraging the fintech and insurtech offerings for better success across adjacent industries                       | Technology solutions not up to expectations - gap between startups' claims and actual offerings   |
| Challenges in governance and co-ordination with incumbents' organizations  | Drive the fintech-insurtech engagement as a project with well-defined milestones and timelines leveraging cross-functional teams with a common goal        | Delay in assessment, approval and onboarding startups impacting the 'fail fast' approach          |

Table 1: Challenges Facing Startups and Incumbents in Evolving into a Hybrid Ecosystem

Fintechs and insurtechs - though capable of leveraging digital technologies and nimbly developing innovative, niche offerings - often lack the scale and visibility of the larger business context of incumbent organizations. Such scenarios will require service providers to help customize and implement fintech or insurtech solutions at scale for BFSI organizations. IT service providers bring to the table a host of capabilities (see Table 1) - the ability to enable the requisite scalability and stability needed for business continuity, an understanding of what incumbents' legacy infrastructure can support as well as rich experience in delivering customizations. In addition, IT service providers' ability to source talent with cross-functional expertise can enable a seamless and hassle-free transition.



Thus, different entities – incumbents, startups, and IT service providers – will have specific roles in the future hybrid ecosystem. Incumbents will focus on meeting end customers' needs, regulatory compliance, and core business and IT capabilities while startups will play a key role in designing innovative offerings through technology experimentation. While service providers will evolve into 'anchors' to guide and lead the partnerships between incumbents and startups by successfully integrating these innovative offerings into the ecosystems of the BFSI organizations thereby ensuring scalability and sustainable solution management.

## The Role of IT Service Providers in Creating a Hybrid Ecosystem

Incumbents typically undertake large programs to modernize their legacy systems and technology infrastructure. Rewriting the entire code base involves huge effort, investment, and results in longer time-to-market. An IT partner can review such initiatives, evaluate the technology options in the context of the business objectives, and suggest alternative solutions developed by startups enabling incumbents to avoid expensive and effort-intensive modernization programs. IT service providers bring unique capabilities and expertise to decompose traditional organizations' business value chain, analyze each business function and evaluate the potential to replace, complement or enhance incumbents' applications with fintech or insurtech offerings to deliver value chain enrichment.

## Act Now or be Left Behind

Incumbent organizations must define and adopt a strategy to lead in the evolving partnership ecosystem by determining the ways, best ecosystem entities can be leveraged to deliver the best business value to their customers. We believe banks must adopt a step-by-step approach to start this journey. First, incumbents must review and finalize their strategic priorities and objectives, second, they must prepare and adopt a holistic strategy to transition to an assembled, 'hybrid' ecosystem. Finally, they must partner with a trusted IT service provider to anchor and drive the ecosystem evolution through relevant fintech and insurtech partnerships.

Each entity in the future ecosystem will have a specific role to play leveraging their core strengths and offerings. We believe the positives of a mutually beneficial collaborative ecosystem far outweigh the negative impact of the risk associated with disruption by challengers. Success, however, will depend on the ability of the incumbents to build a better ecosystem rather than a bigger organization.

## About The Author

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Debasis Thakur is a Senior Business Consultant with the Technology Advisory Group within TCS' Banking, Financial Services, and Insurance (BFSI) business unit. He has close to 22 years of experience in working with global banking clients in the areas of consulting, business development and solution design focusing specifically on digital transformations and fintech and insurtech partnerships with BFSI organizations. Debasis has a Bachelor's degree in Applied Electronics and Instrumentation Engineering from National Institute of Technology, Rourkela, India.

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