

## Editorial

# Unexpected Help – Why PaaS Providers Might Come to the Rescue of Many FinTechs

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The entire financial industry is currently observing the most fundamental transformation in its recent history. New technologies, such as artificial intelligence, the shift to mobile, cloud computing, big data, blockchain, and new powerful analytics are beginning to leave their mark on the established players in the industry.

Nearly all financial organizations have made their digitalization efforts a top priority of their overall strategic agenda. The digital transformation is not a business goal in and of itself. Given the state of modern technology, it is "just" the tool of choice to reach more fundamental business objectives. In the end, being digitally successful means applying new technologies to better solve one's business problems, or creating better customer experiences. These are exactly the reasons why many FinTechs came into existence and prominently proclaimed their objective to overtake incumbents and become the new dominant players in financial services. So where do we currently stand?

Until now, the ambitious plans of many FinTechs have yielded only moderate results. After the first wave of the FinTech revolution, many firms are now faced with the hard business reality that they need to deliver on their promises. High customer acquisition costs, customer stickiness, strong compliance requirements, onboarding problems, and infrastructure investments have influenced the road to success.

Established digital platforms that act as intermediaries between financial institutions and innovative newcomers have the potential to come to the rescue by solving some of the common problems. They offer FinTechs the ability to engage directly with financial institutions, to leverage their existing sales-force, and to create the opportunity to become the dominant delivery model of the new breed of financial services.

Adopting a cloud-based solution allows digital players to scale up their cost structure as revenues grow, thus achieving a faster break-even point.



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Engaging with platform as a service (PaaS) providers offers many advantages to FinTechs as these clients will have immediate access to the most up-to-date technology, comprehensive datasets, and powerful adjacent APIs. New and co-developed software can be easily integrated into the overall platform, which allows business users to innovate faster. Moreover, as platform services are often billed on a subscription basis, PaaS provides the financial flexibility to scale investment up and down in line with business needs. This is exactly what all types of innovators demand – they need to be able to experiment and co-create new applications without the need for significant upfront investment.

Financial institutions can benefit as well since they seek specialized applications from smaller FinTech firms. FinTech startups typically struggle with compliance associated with all necessary checks and processes of financial institutions, and thereby lose precious time solving problems that established PaaS players have already solved. The PaaS

approach should allow FinTechs to reduce the operational burden associated with the availability of data, rich analytics, stability, scalability, short development cycles, and established deployment models.

For such an operating model, simplicity is also critical to success. Every aspect of this business needs to be simple and efficient, including the process for onboarding, the application development and deployments, the partnership model, revenue sharing models, and all the associated legal aspects, including contracts and service level agreements. Finally, when it comes to innovation, speed and time to market matter.

PaaS providers might come to the rescue of the FinTech industry and create a win-win situation for all involved parties. In the end, the whole story boils down to a fundamental component of any successful business: Focus on your own strengths and find innovative solutions to leverage them.