



Vendors & Procurement

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The UK is home to the most exciting innovators in financial services today. It's also the base for huge global banks that desperately need new ideas – and are ready to pay for them. So why is the relationship between fintech vendors and large institutions so broken?

The intersection of technology and financial services is a celebrated hotbed of innovation. Indeed, whether in the UK's Silicon Roundabout, throughout the Square Mile, or further afield in research centres including Cambridge, some of the most important and valuable new ideas of the last decade have been based on a simple question: "how can we make financial services better?"

For the big institutions, innovation is an issue of existential importance. Slow-moving and sclerotic, the financial services incumbents have only recently understood that they must adapt quickly if they are to maintain their dominance. Alongside their own in-house innovation labs, forward-thinking institutions recognise that the best ideas are coming from product-minded and digital-native agencies and startups – and they are keen to buy into them.

For those tech-minded vendors, Tier 1 and Tier 2 banks are the ultimate prize. The best of these vendors have built truly useful solutions to real problems facing financial services, and they are desperate to sell them. The big banks have deep pockets, and they are desperate to buy in new ideas.

It seems like a no-brainer. Right?

Well, not quite. In fact, despite the huge demand for new ideas and better solutions within financial services, many service providers find it a near-impossible market to break into. Vendors report crippling long contracting times and onerous, boilerplate demands for compliance-related information. Procurement teams face increasing regulatory pressure, complex and overlapping internal demands, and chronic under-funding. The process isn't working for anyone.

A third group is emerging – a crop of 'enabling' organisations aiming to act as an interface layer between vendors and procurement. These service providers are using marketplace models to make it simpler for large businesses to buy innovation, and more practical for smaller vendors to sell it.

In this paper we look at the challenges and priorities for all the major categories of player in the market, ask what each could do to foster better understanding of the others, and consider some possible routes through which financial services procurement can improve – to everyone's benefit.

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Our contributors are:

- **Prakash Pattni**, Managing Director – Digital Transformation at IBM Cloud for Financial Services
- **Isabel Pitt**, Head of Core Services at Zopa
- **Felicia Meyerowitz Singh**, Co-founder, Hive Founders
- **Abigail Rutherford**, CFO of financial services consultancy Ascendant Strategy
- **Layla White**, CEO and founder of TechPassport, a platform helping suppliers interact with financial services clients and vice versa
- **Steve Marshall**, Principal Consultant, The Realization Group



Key findings:

- Vendors are struggling to access the banking market, with particular difficulties associated with Tier 1 and Tier 2 institutions.
- Onboarding processes are slow and arduous, with little standardisation and demands for irrelevant information.
- Banks desperately want to buy innovation, but are not doing so in an efficient manner. Reasons for this include poorly designed procurement processes, lack of internal coordination, and the lumping in of compliance and regulatory processes within the procurement function.
- A new 'interfacing layer' of organisations, referred to as Enablers, are making it easier for smaller vendors to interact with large institutions through a range of market-making and consulting activities.
- Standardisation is key to the development of this market. In addition, education activities are vital for both vendors and procurement teams.

Vendors: big opportunities, significant pressures

Vendors, of course, want to sell in their products to willing buyers. But many find that the barrier to entry is unfeasibly high, reporting lengthy contracting and onboarding times, and little visibility of their position in the procurement process.

In particular, vendors complain of 'boilerplate' compliance demands, with a single and inflexible list of documentation requirements that does not reflect the nature of the vendor's individual business or of the proposed commercial relationship.

Abigail Rutherford of Ascendant Strategy, a specialist financial services consulting business, explains the difficulties associated with selling into Tier 2 and Tier 3 firms. "These are people who may have used big consultancies in the past and really found that the value was difficult to justify the price tag." Having decided to move away from the Big Four and seek more specialised support, Rutherford says, "more and more there is a set of things that you have to go through to be even deemed acceptable to do the work – and that's before you can start working out what it is that you are actually going to do from a contractual perspective."



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Abigail Rutherford, Ascendant Strategy

Rutherford points particularly to the inflexibility of the demands made by procurement teams, and the irrelevance of some of the supporting documentation required. "I think our principle gripe would be that it's not proportionate to the risk [associated with the engagement]. Generally, there's a large questionnaire, broken down into different areas, and each of them will require some sort of policy [on the part of the supplier]. It's part of a chain – so you have to show some kind of commitment to ESG, for example. So there'll be a policy requirement."

Not only is this unnecessarily arduous for suppliers, but Rutherford says it also leads to suboptimal outcomes for clients, and does not grant them the intended protection. “You may or may not have a policy of that around some of these things. [Unscrupulous vendors] can always find one on the internet and download it quite quickly, put your name at the top, and there you go. Is that really ensuring that we have a proper ESG policy? Very questionable, I would have thought.”

Fintech veteran **Felicia Meyerowitz-Singh** agrees. “Often I think that the buyer hasn’t articulated for themselves what their key requirements are during the process. And part of it is because the technology is moving so quickly – far more quickly than procurement teams and clients can keep up with.



“You’re likely to need sign-off from different areas of the business – for example regulatory, legal, finance, operations – and each one of those has their own timeline, their own agenda, their own requirements, which may differ. And then the worst thing for me is the [delays] that causes.”

Felicia Meyerowitz Singh, Hive Founders

Steve Marshall is a non-executive director at a software testing firm, and previously worked as an executive at Nomura. He also believes that the demands placed on vendors by procurement teams are rarely proportional to the true risk profile associated with the engagement, but is keen to stress that he understands the necessity for procurement teams to ensure stability amongst suppliers at every stage of the supply chain. He gives the example of software provision: “Imagine you’re responsible for a client base that demands 24/7 uptime. And if you can’t provide that, then potentially your client could be very severely impaired. And if you’ve outsourced that capability to a third party, how do you ensure that you are going to supply that service to your clients? Simple question, but a very complex answer, because in order to supply that level of confidence around the operational risk, you’ve got to know and understand exactly what that vendor does.”



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Steve Marshall, The Realization Group

Procurement: nexus or bottleneck?

Clients, of course, have their own set of specific requirements. In particular, Tier 1 and Tier 2 organisations continue to face significant regulatory pressure. This percolates down through the supply chain, manifesting as more onerous demands on vendors not only through the procurement process but beyond.

Layla White, CEO of TechPassport, understands the process from both sides of the fence. She believes that procurement is over-stretched as a function, in great part because different processes are “lumped in” together. “Most of the time people bundle in legal, compliance, and regulatory work within procurement. And because of that, it can get such a bad name.” There are many reasons why the procurement process may be slow, she says. “It might be that they’re overstretched with legal and they’re outsourcing and they can’t get lawyer onto it, or the lawyer might misinterpret it because they’re out of the loop and they don’t understand the contract. Or you have to book in a lawyer, which might be six weeks, which just isn’t optimal.”



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Layla White, TechPassport

While understanding the necessity for operational stability and for procurement teams to know their suppliers, vendors face particular difficulties when they do not have sufficient visibility of their position in the onboarding process. For smaller firms, and particularly those with no existing compliance or legal teams, a two-year contracting and onboarding process can be enough to drive them out of business – and this sort of timescale is not uncommon.

Layla believes that there is great appetite amongst large banks to make it easier to procure innovation from vendors of every size. “Lots of banks are looking to see how to streamline that process,” she says, “and we’re contributing to that.” In particular, TechPassport is working to create a system “where [all parties] can have a more transparent view of where a project is in the pipeline and where the bottlenecks are.”

Individual institutions also, of course, have their own risk appetites and assessment criteria. There is no guarantee that what is satisfactory to one client will be satisfactory to another. Zopa, one of the UK’s leading fintechs and an early pioneer of peer-to-peer finance, has transitioned from upstart challenger to fully-fledged bank. **Isabel Pitt**, the company’s Head of Core Services, has deep experience of the variations between different institutions’ risk appetites and the way in which this impacts on vendors.

“Each company has a different risk lens, has a different interpretation of risk, and has a different level of maturity in their team’s understanding and evaluation of it. There’s hasn’t been an [attempt] to standardise it, although they [may] say the same things. So they’ll all talk about security, but the interpretation and the risk they’re prepared to take on that depends quite specifically on the company.”

As Ascendant Strategy and others point out, this means vendors are regularly required to prepare what are essentially duplicate packages of documentation but presented in different formats and with individual, non-standardised processes for doing so. Zopa’s Pitt believes that this lack of joined-up thinking across banks is also present within the organisations themselves, and that this is connected with the “siloing” of expertise. “I think what’s interesting when you do an RFP is that this is often siloed, even within the executive team. Each individual has their interest, and they might not be collaborating well with their peers or with others that are going to be impacted. And then the teams that are left to deliver it and get it in place will struggle to have that operational acceptance in the teams that are going to have to own it, because they haven’t been brought in on the journey. They didn’t have their say initially.”



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Isabel Pitt, Zopa

Meyerowitz-Singh also points to competing interests amongst stakeholders as a key reason for bottlenecks. “You’re likely to need sign-off from different areas of the business – for example regulatory, legal, finance, operations – and each one of those has their own timeline, their own agenda, their own requirements, which may differ. And then the worst thing for me is the [delays] that causes. Say that someone from the tech team signs off, but there could be another three months before say finance sign off – and there may well have been tech or regulatory changes in that period, so now you have to go back yet again.”

The Enablers: solutions through market-making

As we’ve seen, the market for financial services technology remains an immature one in which efficiencies and rationalisation are desperately needed. Our third group, which we’ll refer to as the Enablers, are attempting to streamline and improve vendor-procurement relationships by acting as an interfacing layer between the two parties. The Enablers’ activities might be broadly referred to as ‘market-making’. This is particularly relevant to those businesses using marketplace-inspired models to ‘match’ vendors with procurement teams, but the phrase is also a good description of the more traditional consultancy-style businesses operating in this field.

Enablers exist to oil the machinery by which the vendor-client relationship operates. It’s a space that’s attracting large players, including IBM. As **Prakash Pattni**, Managing Director – Digital Transformation at IBM Cloud for Financial Services explains, the company aims to address the key pain points in the procurement process, and is actively expanding its presence in both the vendor space and on the client side.

In particular, Pattni wants to address the onboarding process, understanding that a degree of standardisation can be introduced. “All the banks have a set of control standards that you need to meet before you can use a vendor,” he says. “And what we were seeing was they were all slightly different, but not all that different. So we really felt that we can accelerate that.”

Vendors, he says, “may not have the security or technical background. So you tend to go through a lot of pain, and then you go through it with every single organisation that you work with. So that’s really the friction point that we’re helping with – we’re saying that we’ll do that. You don’t need to go and build these teams of compliance and security people, because we already do that.

“We will help you onboard, we will assess your architecture, even in some cases going onto penetration testing.”



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Prakash Pattni, IBM Cloud for Financial Services

The advantages to vendors are clear, but Pattni believes the banks benefit too. They “can have confidence that they’re working with someone who’s already been vetted. And similarly, the banks don’t have to spend all that time doing it themselves and educating and helping solve those problems.”

The Enablers are also laying the groundwork for the ‘marketplace-ification’ of financial services procurement, envisioning an arrangement in which vendors and clients are either connected through a platform that also handles some of the back-office tasks, or ‘matchmade’ by specialists. IBM uses its immense infrastructural capabilities to stress-test members of its Cloud for Financial Services, echoing the ‘as a Service’ model that is seen elsewhere in financial services. Others are focused on more personalised consultancy, and on developing the vendor ‘ecosystem’.

TechPassport, another key emerging enabler in this market who we met earlier, focuses on the latter approach. As Layla White, CEO and founder explains, TechPassport works in part to educate vendors on the realities of the procurement process and to support them through it.

This can be particularly challenging for vendors that have come from a product background, and may not have in-house legal or compliance expertise. For these businesses, she says, the advice is: “Build compliance into your company from day one. Build it into your culture and into every single process.” TechPassport is making this easier through the adoption of pro forma policies that can be adopted by smaller vendors. “We’ve made all of our templates free through the platform to help suppliers, but there’s a lot more to be done in terms of educating them.

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In this way, enablers such as TechPassport and IBM Cloud for Financial Services are providing new routes to market for vendors who would otherwise have been locked out of the banking space. It’s a significant piece of work, but one that represents a huge opportunity not only for vendors but also for incumbent institutions that are crying out for innovation.



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