Branching Out: A Retail Banking Podcast Series

Season 2 | Episode 3: Evolving Partnerships in Retail Banking: Co-opetition in the Financial Ecosystem

Hosts:

Bill Dworsky, Senior manager, Deloitte Consulting LLP

Kristin Korzekwa, Managing director, Deloitte Consulting LLP

Guest:

Michael Costigan, VP of Business Development, ONE

Kristin Korzekwa: Well, hello everyone, welcome to Branching Out, the podcast where we explore trends in retail banking through conversations with leaders from across the financial ecosystem. I'm your host, Kristin Korzekwa.

Bill Dworsky: And I'm Bill Dworsky. On today's episode, we're excited to talk with Michael Costigan, VP of Business Development at ONE. Michael, great to chat with you, thanks so much for joining us today.

Michael Costigan: Great to chat with you as well.

Bill Dworsky: So, Michael, let's start with ONE specifically. For some of our audience that maybe a little bit less familiar, can you share a bit about what ONE. ONE is?

Michael Costigan: Yeah, absolutely. So, pretty simple, our mission is financial progress, and our vision is to have one app that helps you save, spend, borrow, and grow your money.

Bill Dworsky: And can you share a little bit about maybe the founding myth or sort of the background of ONE? Where did ONE come from or how did ONE kind of come to be and progress toward that mission?

Michael Costigan: Yeah, ONE was started with this vision of creating a neobank that had an emphasis not just on traditional debit, but also on credit as well. And we were very early to market with credit that was cashflow underwritten and obviously, the rest is history now.

Kristin Korzekwa: So, Michael, your role in business development. The term business development can mean a lot of different things to different people, but what does it mean for you and kind of what is a little bit of the day-to-day of your role?

Michael Costigan: It's always a good question because business development can mean so many things in so many different organizations and startups and FinTechs. I think of business development as sort of three categories. I think of it as product partnerships, I think of it as strategic relationship management, and I think of it as new business, kind of new revenue driving business at that.

And so, for me, it's just about allocating people and resources across those different buckets and making sure that we serve the internal customer, the needs of the business, which often come out of our product team, may also come out of areas like finance or engineering if there's a specific partnership that we're looking to chase down.

Bill Dworsky: Michael, I know before ONE, you've worked in some other BD roles previously at different organizations. How have either those three buckets or different focuses in prior organizations, how would you compare or contrast your current focus at ONE with other types of biz dev roles you've had in the past, and how that, just like you said, media can mean so many different things to different organizations. How has it kind of evolved for you over time?

Michael Costigan: There's a variety of different needs depending on the stage of a company, and I think that's what's determined sort of how business development has looked for me the most. Very early-stage, sort of seed stage businesses that I've been a part of through to series C and exit and beyond, business development looks very different.

I've worn hats that consist of fundraising at times and hats that don't consist of fundraising at times. Opportunities where it's been about new customer acquisition and growth, going out and driving marketing campaigns that help acquire new customers, but then also kind of back-office management of existing vendor relationships or service provider relationships.

And so, it sort of spins the gamut depending on how mature an organization is, and how many other mature functions exist side by side.

Bill Dworsky: Makes sense. I'd love to come back to that distinction, you mentioned the word "vendor relationships" and "suppliers." I'd love to come back to like that versus the nomenclature around partnerships maybe in a bit.

But maybe one other just quick thing on variation across some of the roles you've had and generalizing that, how would you sort of compare or contrast the business development focus you've had in the financial ecosystem with ONE, versus maybe some prior roles that you head of BD in other sectors, other industries, any things that you found interestingly different or actually, very similar across those?

Michael Costigan: So, the biggest difference between the various business development roles that I've held is probably whether it's a D2C company or a B2B company. And so, business development looks very different depending on whether your end customer is another business or an individual consumer.

In the B2B world, these are SaaS companies, where business development is usually a quasi-sales function. It's usually a role where you have some sort of goal or quota or target associated with your compensation, and you're going out and you're developing partnerships that ultimately, turn into channels for you to sell your product through.

A good example of this might be partnering up with a large systems integrator who is able to help you sell your software off the back of their truck where they have commissioned agents who are able to go out and help move that for you.

It could also be strategic partnerships and alliances. We hear that term a lot in the sort of B2B SaaS world which really just means interoperability between platforms, and you can think of plugins that you may use with a particular tool. It's very different than D2C and sort of direct to consumer.

Direct-to-consumer land, yeah, we're doing partnerships to some extent with other businesses or maybe other FinTechs, but when you think about growth, your target customer, it's really more of a growth marketing exercise.

So, your target customer is paid search and paid social, and having a different type of quota. It's a target for net new account creation and trying to get your cocktail to be ratio to be a bit more in line with what you need it to be. So, very different mental exercise.

What I like about D2C is that the feedback loops are just so much shorter. You find out if something's working, if a campaign's working in pretty close to real time. You can see the conversion improving or not improving. And in a circumstance where you have a long sales cycle where it may take six to nine months to close an enterprise deal, you're waiting around a long time to get that insight.

Bill Dworsky: I'm curious if you've thought about or whether at ONE or otherwise, thought about business development and growth opportunities to branch beyond the D2C space into serving the needs of small businesses, and what some of that might require or entail from a business development, new partnerships or kind of new capability standpoint in order to kind of address that market? Any things that have come up for you that you would offer kind of on the spot about that?

Michael Costigan: Yeah, so I mean, in the context of financial services, the needs of a small business owner are a little bit different, but still in many ways similar to the needs of an individual. We start to think about the ability to move money differently, support for things like wires and different types of capacities for interoperability with other suites of services.

And so, that's a real factor for anyone who's going out and building a FinTech that's trying to serve that market, versus you sort of start with the baseline features when you're serving the traditional retail banking client because they maybe don't need all of those things or expect all of those things in one place.

I would certainly say that business development partnerships plays an outsized role in the S&B banking space because most of those type of things are not necessarily being built in-house. You don't build your own accounting software; you choose a large platform to integrate with. And so, that's a key part of the partnership role as well.

Kristin Korzekwa: We've used the word partnerships a lot. I think the way banks think about partnerships has probably evolved over time, as you know. I think back to when we would talk about a FinTech, and it was always used in the same sentence as the word "threat."

And then FinTechs is our competition, disrupting the industry and I think we still acknowledge and recognize that FinTechs as sort of that disruptor and bringers of innovation. But can you just talk a little bit about your perspective around how that has evolved over time and the way, especially recognizing how many of our listeners are retail banking focused.

From a retail banking perspective, where are we today in the state of play with the industry around kind of the evolution of the partnership, and why do you think it's so important for kind of the future of our industry?

Michael Costigan: There's obviously a lot of eyes on what FinTech players are doing in the market because increasingly, they're moving beyond just simple sending money to your friends type use cases, and taking over the entire family's bank account. And that's also then connecting into how customers are acquired for these banks.

Because if you think back to maybe how somebody may have opened their first account, they got targeted by a large retail bank when they were on a college campus, or they got targeted by virtue of walking into a branch with their parents when they were younger — that kind of first account, and then keeping that account growing with that bank, that entire model is being disrupted by FinTech today.

In terms of FinTech being a threat, I really see it as a force for innovation and good against the large banks. We've seen the large banks kind of come together through consortiums like early warning and others to kind of create not just repositories of fraud and data to make customer experiences better, but also, to support things like Zelle and Pace with respect to money movement interoperability.

So, I think it's driving outcomes for retail banking customers that are generally net positive. I also think that the kind of benefit of FinTech in many cases is lower fixed OPEX, and with that, comes a lot of benefits that can be offered to the end consumer.

I've worked at two different FinTechs that offer much, much higher than market rate APY for example to the consumer, which is obviously, helping them save money that they probably wouldn't be able to save at a big brick and mortar retail bank.

So, from that standpoint, I see a lot of good happening. I generally see it as a kind of positive competitive market effect, and I think that consumers are quickly wising up to the fact that they don't necessarily need a brick-and-mortar retail bank.

They may have that as a portion of where they do their banking. There are still things like cashier's checks, for example, whenever you move or whenever you get a new apartment, you're probably trying to figure out where you can get one these days.

But by and large, most of the day-to-day use cases are pretty well served in FinTech from international money transfer to savings concepts and budgeting and all of that, which I think is probably better served through FinTech today than it is through traditional brick-and-mortar banks.

Kristin Korzekwa: I tend to agree. I mean, I think just that word threat just sounds so negative, but I think if you put yourself in the consumer shoes, the amount of innovation that FinTech has driven in our industry is so critical to enabling what our consumers are able to do today and some of the less traditional channels.

Bill Dworsky: Michael, I love the word "co-opetition" in this context for both new and emerging FinTechs as well as some retail banks. I mean, some traditional banks have seen and proactively repositioned themselves around that trend to offer different types of banking as a service or banking infrastructure, or other types of capabilities or enablers for emerging FinTechs, and become "the bank behind the scenes" which I think is an interesting strategic shift for those institutions.

And for ONE, for example, I think you all have partnered with things in that regard as well. Can you share a little bit about how you've kind of approached or even thought about that dynamic, relative to some either small or medium or larger banks that have tried to position a little bit more as a cooperator with FinTech ecosystem?

Michael Costigan: Yeah, so there's actually some pretty good bidirectional examples in this case. We think about regional community banks and their desire to stay relevant, their desire to grow accounts, their desire to grow deposits.

One of the things that they've figured out over the last sort of decade is that they can actually blend their charter, so to speak, they can be a bank sponsor to FinTechs, and help them offer FDIC-insured accounts and help them offer their customers access to the U.S. financial system, meaning acceptance of wires.

So, things like Fedwire, also access to Nacha and the clearinghouse here in the U.S., being able to send ACHs. And so, you think about a FinTech model in the United States, there's not too many who've sort of gone down the route of seeking an independent charter.

You do have some, Varo, who've done it, but by and large, most people don't end up getting to that size and stage. Perhaps they go and acquire an already chartered bank, but for the most part, they've gone out and they've partnered with some community or regional bank who's really tooled themselves as a FinTech charter. There are lots out there.

There's a variety of different sponsor banks that exist now that have a lot of downstream end users who are effectively the clients of their FinTechs. You're seeing FinTechs partner with regional and community banks who otherwise may not have a large digital presence, and you're seeing FinTechs go and partner in some cases even with much larger traditional retail banks.

So, that's, I think, proof of a healthy ecosystem, and proof that everybody has a particular role to play within that ecosystem, and can drive value and benefits ultimately.

Bill Dworsky: I love that. I think the other really kind of scaling example that comes to mind for me is actually related to payment networks, and kind of enabling payment network certification and offer basically rented access to the primary payment networks around organizations for FinTechs that want to issue credit cards or issue debit cards that run on those network rails.

And to your point, I think a growing and proliferating business model for smaller regional banks that really see it as a new growth opportunity for their business to expand beyond the neighborhood that they sit in or the state that they operate in, et cetera.

Kristin Korzekwa: So, Michael, what would you say from forming a new relationship between these two parties, what are some of the keys to success, the art of the deal, as you're kind of early on in stages of sort of courting a partner – what kind of advice would you give to enabling a strong partnership upfront?

Michael Costigan: So many different things come into play when you're thinking about how to partner with a sponsor bank. Ultimately, the way that I think about it is you're negotiating not just on behalf of your company, you're really negotiating on behalf of your customers.

Because the experience that your customers have is directly tied to the performance SLAs that you have with your sponsor bank, and in many cases, various other commercial economic terms that you have with your sponsor bank.

I'll give you a quick example. If you're planning to offer high yield savings product to your consumers, you have to have the Fed funds rate passed through to you from your sponsor bank, they can't be taking all of that.

If you want to offer rich rewards, for example, cash back on debit, which is increasingly common in the FinTech space, but the unit economics are pretty fraught – it's really important that you have a direct relationship with the network in order to be able to get the appropriate economics so that you can then pass on that accretive value to your end user. So, I think it's really important to get those things right.

There's also varying different models between having your own bank core or using one of the sponsor bank's existing legacy cores. I think most FinTech companies at this point in 2024 have moved away from that model. They're using their own general ledger that's hosted in the cloud by some other large third-party.

But we've seen news recently over the last couple of weeks here that sometimes that's a very imperfect solution because those companies can go sideways as well. And when that happens, you have a lot of customer risk.

And so, having redundancy is important. Having perhaps even multiple sponsor banks to support your customer's balance sheet, so to speak, might be pretty relevant. We have an increasingly changing regulatory landscape between FinTech and sponsor banks.

And so, without getting into too much of that detail, it pays often to have some redundancy there in case one of the particular sponsors that you use is not able to serve the needs of your business.

Bill Dworsky: And those are such great considerations, Michael. I especially liked the angle that you offered on different options around core and general ledger. One of the things that it sparked for me that we touched on very briefly a little bit earlier was the notion of vendor supplier versus partner.

And viewing one of those core providers, whether it's an institution or more modern cloud-based solution as either one of those — how do you think about the distinction between "a vendor" or "a partner" as you're thinking about new relationships and deal-making in that sense?

Michael Costigan: I get this question a lot because the difference between vendors and partners is often just a name only. When we think about how the CFO's org or the COO's org might consider a particular third-party service provider, they more often than not will see them as a vendor. They're ultimately a vendor if they're a cost center, in other words.

What makes something a bit more of a strategic partnership is where there's some element of rev share or net new revenue creation, and that's, I think, pretty standard across the market. The terminology is sort of in the eye of the beholder here.

Because if your sales leader or your chief product officer is in the room and having a conversation with a service provider, they may just default to referring to them as a partner because they're trying to be a good partner in the sense of having that conversation.

But when it really comes down to it in my world, I think of strategic partners as not just cost centers, but associated with net new revenue, associated with rev share agreements, and I think of more traditional vendors as peer cost centers.

Your landlord for your lease is a vendor, or your facilities and your maintenance staff might be a vendor, but somebody who is ultimately powering a portion of your app who you are sharing revenue with, for example, when sending money through a processing kind of terminal is probably best referred to as a partner.

Because you have economic incentives that are aligned, and you have shared goals around growing that stream of business together. And so, it should be partnership, and if it's not treated as such, it's going to be difficult to scale that relationship.

Kristin Korzekwa: Maybe I'll go to the flip of the question that I had asked you previously Michael, around keys to success in forming a new partnership. So, what about exiting a partnership? What are some of the signals that maybe the nature of a relationship or the structure of a relationship has maybe run its course? How do you think about that maybe strategically and kind of prepare for that so that it's kind of a seamless exit or transition out?

Michael Costigan: It's a great question. So, every partnership that I work on has some concept of a renewal in it. And in some cases, those renewals are midterm, meaning it may be a five-year term, but there may be a negotiated two-year opt out in the first 24 months with 90 days' notice. And that's not meant to be bad faith on the part of my negotiation, it's intended to serve as a bit of an accountability check for both parties.

So, you get into a partnership, you're 18 months in, and maybe things are not going exactly according to plan, but what you have in a benefit kind of back pocket for you is this forcing function to bring both parties back to the table to discuss maybe economics that might need to be adjusted, maybe additional use cases that need to be supported in that SOW – whatever it might be, it forces the parties back to the table.

So, that's one way to kind of keep partnerships from going off the rails, and one way to get ahead of having to end a partnership abruptly because you have an advanced notice period where yeah, you can still wind something down if you have to, but you are giving the counterparty a good faith opportunity to come back and work something out. Maybe you breeze right through that, it's no issues, everything's going great, but people love to have that optionality.

In terms of thinking about ending a partnership that you know has to end – sometimes relationships have to end and usually, both parties know this to some extent. And if you approach your counterparty and you say, "Hey, this isn't working and here's why it's not working," you're probably going to be faced with some sort of response if it's economically important to them, at least, that tries to salvage and save that relationship.

I generally find that it's prudent to just be pretty direct. I think it's good to have a proactive, already pre-negotiated winddown clause in your relationship. This is not dissimilar to having a prenup in a marriage. It's good to kind of get ahead of things and make sure that you have an opportunity already set aside to say, "This is how this is going to go if this party pulls this lever." And that's ultimately, just a kind of fact of doing business.

I think people are generally accustomed to winddown clauses. They usually consist of some amount of time and support from your third-party service provider where they continue to maintain the platform, maybe continue to offer some minimal level of service and support for X amount of months until your customers can be transitioned off or away from the service.

Kristin Korzekwa: Now, that makes a lot of sense, and a lot to think about. And I couldn't help but also be thinking about those parallels to a prenup or, I don't know, marriage counseling in the vowel renewal, some sort of a parallel there to a marriage. So, I love it.

Bill Dworsky: Unlike marriage, all good things do sometimes have to come to an end. Michael, this has been awesome. One last thing before we wrap up: we often do a lightning round with guests where we do some quickfire questions with pretty short, rapid responses, is that okay by you?

Michael Costigan: Absolutely.

Bill Dworsky: Cool. Alright. So, what do you think is going to be the number one enabler of successful partnerships in FinTech over the next 5 to 10 years?

Michael Costigan: Cloud-native course.

Bill Dworsky: Cloud-native course, love it. Let's shift gears a little bit: what's the most memorable experience you have had as a consumer with a product or service offered by a partnership?

Michael Costigan: Probably earning rewards.

Bill Dworsky: Love it. Who doesn't love great rewards. Earning and burning, I think. Last one: what are you most excited about for the rest of 2024 with ONE?

Michael Costigan: We have an incredible roadmap opportunity to really seize upon access to 150 million plus weekly shoppers. And so, surprise and delights, making those customers feel heard and seen in a way that traditional banking just hasn't for them.

Kristin Korzekwa: That's awesome. That is definitely something to be excited about. Well, I think that sounds like a great place to wrap. Thank you so much Michael for joining us for this conversation, and thank you, of course, to our listeners out there for tuning into our conversation, as well as our Deloitte teammates and our friends at Hangar Studios.

If you're looking to go deeper on some of the topics that we talked about today with Michael, check out our podcast webpage at deloitte.com/branchingout/US, where you'll find short show notes and relevant links from our conversation today.

If you have ideas, suggestions, other feedback, drop us a note at branchingout@deloitte.com, and we look forward to exploring the future of retail banking again with you soon.