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Part of The Investment Association

THE INVESTMENT ASSOCIATION

A Blueprint for FinTech Engagement and Onboarding in Investment Management

March 2024

Contents

Target Audience

This paper is aimed at:

1) Investment Management Professionals seeking to navigate and embrace FinTech in their organisation in order to innovate.

2) FinTech Solution Providers seeking to navigate the nuances, cultures and challenges of engaging with investment management firms.

4) Any Individuals interested in obtaining a better understanding of the Fintech ecosystem for investment management and best practice for successful engagement within their firms.

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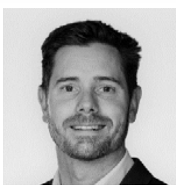

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The Investment Association's FinTech Hub, Engine, and associated initiatives are supported by an advisory panel of industry experts from the following firms:

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1. Introduction

In an era where the investment management sector has traditionally navigated through a maze of regulations with only cautious steps towards technological adoption, the escalating digital demands of clients and investors are now making this capability no longer a nice-to-have but an imperative. With the current economic landscape marked by rising inflation and a noticeable shift towards passive investing, the cost pressures for UK and international investment management firms are intensifying. This scenario unfolds against a backdrop of fierce competition in a globally interconnected marketplace, with BigTech giants eyeing the sector, ready to leverage their vast economies of scale and advanced technological infrastructures. The call for urgent innovation and transformation is no longer a matter of choice but of survival.

This pressing need begs the question: What avenues are open to investment management firms not only to survive but thrive in this challenging environment? Financial technology firms (FinTechs), known for their agility and state-of-the-art technology, emerge as a beacon of hope, offering solutions that promise not just cost efficiency but a complete overhaul of the value chain. For investment management firms, partnering with FinTechs could be a game-changer, providing them with the much-needed edge in enhancing their competitiveness and unique selling propositions to clients.

Collaboration with external partners, while offering unique opportunities, does however also have its challenges. Issues such as aligning organisational cultures, ways of working and expectations can present significant hurdles. Recognising these challenges and the critical role that FinTech can play in the investment management industry, the Investment Association's FinTech hub, Engine, identified the need for a comprehensive guide. This whitepaper is designed to be that guiding light for investment management professionals looking to harness the power of FinTech within their organisations. It offers a dual perspective, exploring the journey from both the investment management and FinTech viewpoints, providing a holistic understanding of the potential obstacles and strategies to navigate them.

This whitepaper aims to stand out for its authenticity and depth of insight, derived from a collaborative effort involving 25 investment management firms that sit on Engine's Advisory Panel as well as FinTech firms from Engine's FinTech Growth Panel. This practitioner-led initiative draws on the real-world experiences of those at the forefront of the investment management and FinTech sectors. We are confident this unique approach not only bridges the gap between these two worlds but will also deliver tangible benefits to the industry at large.

Overview of the whitepaper

Setting the Scene

We begin by painting a comprehensive picture of the FinTech ecosystem, both within the UK and globally, underscoring the critical need for innovation in the investment management sector. This section highlights how embracing FinTech can significantly enhance operational efficiency, consumer outcomes, and overall industry resilience.

→ **Section 3.** FinTech Ecosystem Overview and Analysis

→ **Section 4.** How FinTech is Changing the Industry: Immediate Need for Change

Addressing Capability Gaps and Exploring Considerations for FinTech Engagement

We explore the various strategies investment management firms can employ to address capability shortfalls, from internal IT development to outsourcing and forming strategic partnerships. Delving into the specifics of engaging with FinTechs, this section examines the range of possible interactions, from simple product procurement to deep strategic alliances. We discuss common challenges and offer actionable recommendations for fostering successful collaborations.

→ **Section 5.** Investment Managers' Readiness for Engagement

Investment Manger Perspective: Spotlight on FinTech Scouting and Evaluation

This part focuses on the crucial aspects of FinTech engagement for investment managers, including scouting for new technologies and evaluating their suitability.

→ **Section 6.** Investment Managers: FinTech Scouting & Solution Suitability

FinTech Perspective: Spotlight on Procurement and Onboarding

Concluding with insights from FinTech firms, this section offers best practices for engaging with investment managers, particularly in navigating the procurement and onboarding processes.

→ **Section 7.** FinTechs: Engagement with Investment Managers

2. **Executive Summary**

Historically, the investment management industry has been slow to adopt new technology. Organisational readiness and the ability to implement technological solutions relies on a culture that embraces change and processes that support innovation. This whitepaper underscores the urgent need for innovation and the positive impact on efficiency, consumer outcomes, and resilience.

We take you on a journey through the FinTech ecosystem, from the innovation hubs of the UK to the global stage, highlighting its transformative impact on the investment management industry. It not only explores FinTech's role in introducing efficiencies and opportunities, but also tackles the challenges investment managers face.

We dissect the various ways to engage with FinTech, from simple product purchases to deep strategic partnerships, providing a rich perspective on fostering innovation and growth. This exploration includes an in-depth look at overcoming integration hurdles, enhancing collaboration, and an innovative framework to assess and improve your organisation's FinTech readiness, complete with actionable steps. The paper also delves into the crucial practices of scouting emerging technologies and evaluating their fit, preparing investment managers to lead in the evolving financial sector.

This whitepaper aims to inspire and guide investment managers and FinTechs towards a future of shared success and innovation in the FinTech realm.

Key insights of the paper include the identification of the following for successful collaboration between FinTech firms and investment managers:

1) Specific business use cases	**6)** Stratefically aligned objectives
2) A supportive organisational culture	**7)** Data governance and security emphasis
3) Multi-level sponsorship for innovation	**8)** Regulatory compliance
4) Agreeing on success criteria	**9)** Open and collaborative approach
5) Understanding of the integration process	**10)** Regular and clear communication channels

The investment management sector and the FinTech ecosystem are both characterised by their intricate complexities, yet they offer vast opportunities. As the landscape continues to shift, collaboration emerges as the linchpin for fostering the kind of innovation essential for firms to thrive in this perpetually competitive and evolving environment. It is imperative that the investment management industry undergoes a transformation to align with the changing demands of the modern end investor. In this endeavour, the role of FinTech solutions cannot be overstated; they are critical in securing a competitive edge for firms.

Investment managers should use this document to:

- Understand the FinTech landscape
- Benchmark their current approach to FinTech adoption
- Implement necessary changes to better identity areas of opportunity in their business
- Improve their FinTech scouting capabilities
- Adopt best practice for FinTech onboarding

FinTechs should use this document to:

- Understand the investment management sector
- Prepare and scope procurement and onboarding requirements

We strongly encourage the utilisation of this guide within your organisations as a means to streamline operations and embrace best practices. By doing so, you will significantly accelerate the time to market and enhance the quality of the products delivered to your clients and end investors. This guide is more than a resource; it is a blueprint for navigating the future of investment management and FinTech innovation.

3. FinTech Ecosystem Overview and Analysis

FinTech in the UK

The UK investment management sector manages in excess of £8.8 trillion and is a world leading international investment hub, second only to the USA.[i] With a growing focus on international competitiveness, resilience, and transformation, building a sector that has the ability to adapt to client needs has never been more important.

Following a robust 217% year-on-year surge in FinTech investment from 2021 to 2022, the UK FinTech sector reached a pinnacle of $12.5 billion in 2022. This was followed by the economic slowdown of 2022 – 2023, which together with geopolitical unrest, high inflation and supply chain problems created a difficult environment for FinTech investment in the UK and globally.

2023 saw a 48% reduction in global FinTech investment from seed through to series A. Investment in early stage FinTech remained strong, although later stage larger deals reduced. This contraction is attributed to the unique circumstances of the Covid-19 pandemic, where the initial surge in FinTech investment balanced out as companies adapted to stabilised working environments and operational models post-pandemic.[ii]

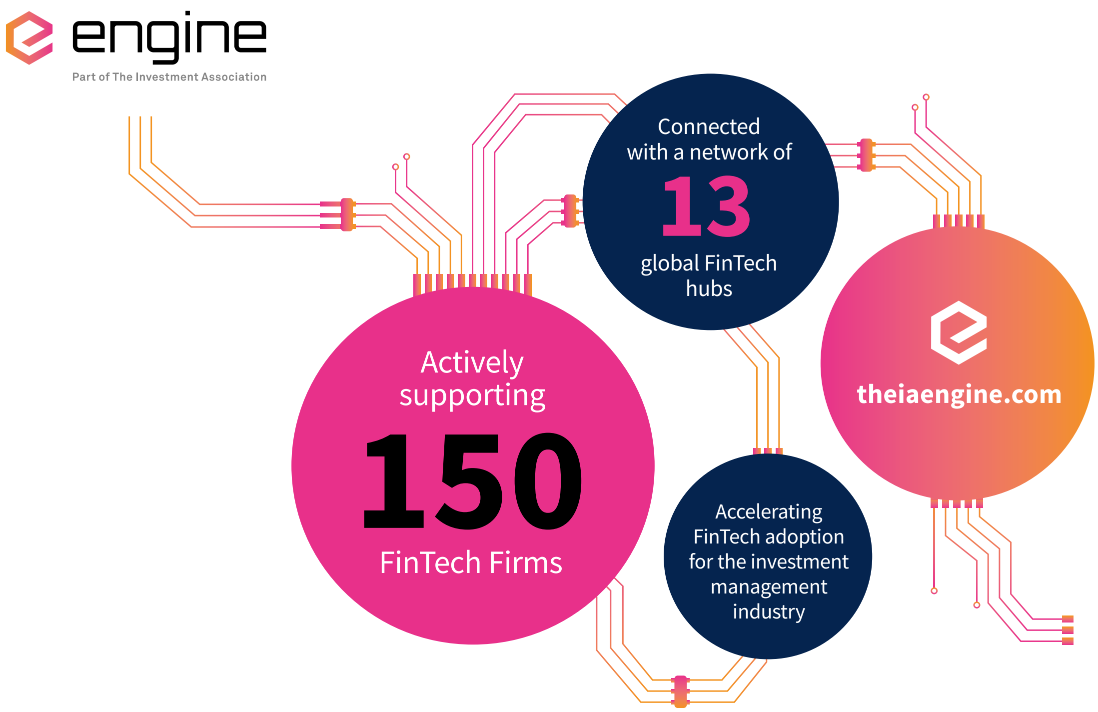
Whilst the data shows a slowdown in capital investment, the UK remains an attractive home for FinTechs offering investment management solutions, with the UK FinTech sector remaining a top investment destination. It accounts for more deals and capital invested than the next 9 top European countries combined and ranks second globally only behind the USA. The UK has access to world-class talent and a progressive approach to regulation that encourages FinTech innovation.

The UK is a country of entrepreneurs and innovators. It is widely acknowledged that consistent investment in technology is required to remediate legacy architecture and maintain competitive advantage, which ultimately creates and maintains success. Most FinTechs are unencumbered by legacy systems and can therefore be more agile, allowing them to use emerging technologies and quickly address customer needs of investment managers.

Figure 1: Top Markets Based on Capital Investment into FinTech

Country	Number of Deals	Capital Invested
United States	1,530	$24.2 bn
United Kingdom	409	$5.1 bn
India	187	$2.5 bn
Singapore	176	$2.2 bn
China	76	$1.8 bn
United Arab Emirates	54	$1.3 bn
France	97	$1.2 bn
Germany	86	$1.1 bn
Hong Kong	41	$912 m
Canada	92	$884 m

Source: Innovate Finance: FinTech Investment Landscape 2023, January 2024



Whilst London is the largest FinTech hub in the UK, there has been significant movement towards decentralisation of innovation to the many established regional hubs including the North-West, the West Midlands and Scotland but also emerging hubs in Cardiff, Bristol, Cambridge, Northern Ireland and the North-East. Between 2019 and 2020, the consultancy firm WhiteCap conducted reviews of 6 main regional FinTech ecosystems in the UK to highlight the number of FinTechs in operation, and provide oversight of the solutions on offer in each region (Northern Ireland, West Midlands, Greater Manchester, Leeds, Bristol and Bath and the North East). The paper identified that 1 in 3 FinTechs are now based outside the central hub of London.[iii]

Regional collaboration takes place primarily through the FinTech National Network[iv] that connects FinTech hubs across the UK. The network supports a strategic approach to UK FinTech and enables greater access across financial services. Members include Innovate Finance, FinTech North, FinTech NI, FinTech Scotland, FinTech Wales, FinTech West and SuperTech in the West Midlands.

On 28th February 2023, the Centre for Finance, Innovation and Technology was launched.[v] Established as a result of the Kalifa Review of FinTech (2021) to position the United Kingdom as a global leader in financial innovation[vi]. CFIT's purpose is to unblock barriers to growth for financial technology by bringing together the best minds from across the UK in order to drive better outcomes for consumers and SMEs.

There are numerous hubs, accelerators and databases that exist in the UK that address all aspects of tech and innovation within financial services but only the Investment Association's Engine specifically focuses on innovation within investment management.[vii]

FinTech Globally

The implementation of the right technology can lead to better client outcomes. Technology is offering change for existing infrastructures with the likes of tokenisation increasing market accessibility and simplifying the fund infrastructure. The advances in AI provide extensive opportunities in front, mid and back offices with regulators across the world looking at frameworks and regulation.

More internationally global jurisdictions are working with hubs to access the best solutions and there is considerable interest within the Middle East, Far East as well as African nations.

FinTech initiatives are now central to international competitiveness and collaboration. Whilst the UK has a strong reputation for innovation, other incentives across the globe are attracting technology solution providers to less established regions. Examples include Saudi Arabia, where FinTech Saudi are working towards a goal of having 525 FinTechs operating out of RSA by 2030. Another notable region is Singapore, who are spearheading the Project Guardian initiative; a collaboration with policy makers and the financial industry (in the UK, Japan and Switzerland) to explore feasibility of applications in asset tokenisation and DeFi.[viii]

The UK must work hard to maintain its position as a leader in FinTech. International relationships are key to building deeper ecosystems and opportunities whilst retaining a regulatory and business environment that encourages innovation and adoption.

Details of international hubs that Engine work closely with can be found here and are highlighted in the graphic below.

Key takeaways

1. The UK is a significant FinTech powerhouse

2. The UK has multiple hubs and FinTech ecosystems

3. The FinTech sector has grown rapidly across the globe and competition is increasing

4. Digital experience and ease are cornerstone client requirements

PART 1 (For Investment Managers)

4. How FinTech is Changing the Industry: The Immediate Need for Change

Overview

Over the past few decades, FinTech has revolutionised the world of finance and transformed personal and professional lives with convenience and accessibility. The investment management industry has specifically felt the disruptive power of FinTech in a variety of ways, from breaking down traditional barriers to entry such as high fees and complexity, to the impact and time savings of robo-advisers and Artificial Intelligence (AI).

Looking forward, FinTech shows no signs of slowing down its rapid developments. Advances include AI and machine learning algorithms enhancing predictions and tailoring investment strategies, and blockchain technology enabling the decentralised and secure management and tracking of investments. Looking further ahead, Quantum Computing has already started to be used in our industry and has the potential to revolutionise algorithmic trading strategies, improve risk management and analysis, and level up data analysis capabilities for investment managers.

FinTech's impact on investment management has, and will continue to:

1) Enable disruptive ideas - driving forward innovation

2) Fast track access to the latest technologies

3) Increase agility and customer experience focus

4) Speed up time to market delivering cost efficiencies

Investment managers will need to adapt and change with the technological developments and opportunities or otherwise risk losing their competitive edge and market share to more disruptive and efficient firms.

Advancements in technologies such as Blockchain, AI, RPA, Big Data, and IoT provide significant opportunities within all aspects of the value chain, and will significantly change the way that investment managers conduct business. Examples include:

Figure 2: What are some of the most impactful technologies for our industry?

Blockchain

Distributed Ledger Technology (DLT) for transparent and secure asset tracking. Also enables cyrptocurrencies and will be used in the creation of some Central Bank Digital Currencies (CBDCs).

Tokenisation of assets and funds provides increased liquidity and accessibility, reduced transaction costs, enhanced security and transparency, and a more automated process.

Smart contracts for automated and efficient trade settlements.

Artificial Intelligence

AI-powered robo-advisors for automated portfolio management.

Natural language processing for sentiment analysis and news-driven investment strategies.

Generative AI, such as GPT-4, that has 100 trillion parameters and is capable of creating new and original content from natural language prompts.

Language translation.

Robotic Process Automation (RPA)

(The automation of repetitive tasks using software robots)

RPA for streamlining investment operations and back-office processes.

Automated compliance checks and reporting using RPA systems.

Big Data and Analytics

Data analytics for risk assessment and portfolio optimisation.

Machine learning algorithms for predictive investment modeling.

Internet of Things (IoT)

(Connecting everyday objects to the internet for communication and control)

IoT sensors for real-time monitoring of investment assets.

Enables the gathering of environmental data which is crucial in determining the impact of certain environmental conditions.

Why Our Industry Must Innovate Now

Our industry must innovate and embrace technology to meet the expectations of next generation investors such as millennials and Gen Z, as well as the general populace that are becoming increasingly reliant on technology.

An increasing number of customers now expect intuitive mobile apps, seamless user experiences, and instant access to information. With so many aspects of our lives having already been altered by technology, it is crucial that our industry continues to modernise and technologically develop to meet the needs of the continually evolving end investor.

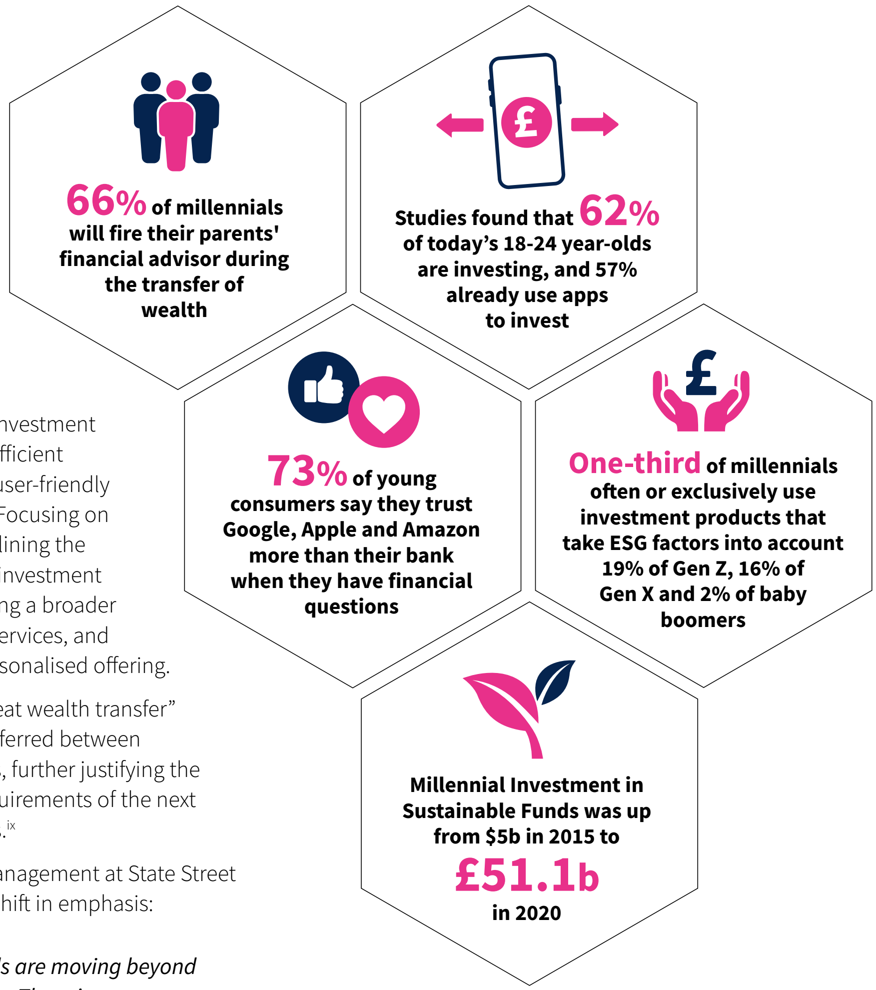
By leveraging FinTech solutions, investment managers can provide easy and efficient investment interactions through user-friendly interfaces and mobile platforms. Focusing on the customer journey and streamlining the experience of interacting with an investment manager will contribute to reaching a broader audience, improving visibility of services, and building trust through a more personalised offering.

Over the next 20-30 years, the "great wealth transfer" will see a record £5.5 trillion transferred between generations as inheritance or gifts, further justifying the need to focus on the differing requirements of the next generation recipients of the funds.[ix]

Brie Williams, Head of Practice Management at State Street Global Advisors, has noticed the shift in emphasis:

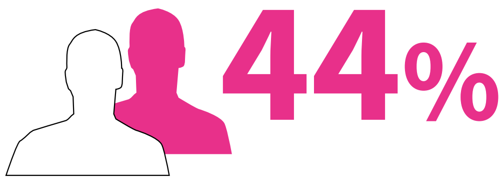
"Consumer behaviours and needs are moving beyond simple access to financial services. There is now an expectation that these services will be mobile, accessible, and adaptive, and they'll blend human and digital engagement channels that seamlessly connect. This holistic strategy is different from a multi-channel strategy, where the various touch points operate in silos."[x]

Figure 3: Infographic on Millenial and Gen-Z investors and savers



Sources: Investment News Data, 123nextgeneration, Nasdaq, and Morgan Stanley

If firms do not recognise and adapt to the changing end investor, there is a significant risk of losing market share to more accommodating firms, and disruptive new market participants that have already taken steps to offer services or products that are growing in demand. Such firms include BigTech firms that have already been steadily encroaching into the financial landscape with digital payment apps, mobile wallets, and lending services, and their foray into investment management would be a natural progression.



Recent reports suggest that 44% of investors are planning on moving their funds in the next two years and that 49 per cent of them view a simple, intuitive digital experience as one of the top criteria for evaluating potential providers.[xi]

A study conducted by Amundi and The Business Times found that 82% of Gen Z and close to two-thirds of young millennial investors have exposure to ESG investments. In addition to the shift in younger investors prioritising sustainability and ESG factors, it is clear to see that this trend is part of a general shift amongst the population in prioritising environmental impact. FinTech solution providers can help investment managers incorporate ESG considerations and benchmark their products, allowing them to offer socially responsible investment options that align with the values of investors.[xii]

There are a variety of external factors that impact the investment management industry. The following PESTLE analysis, figure 4, looks at some of the most impactful political, economic, social, technological, legal, and environmental points to consider.

The investment management industry in the UK is profoundly shaped by a multitude of political factors. Regulatory changes, tax policies, and geopolitical events wield significant influence, necessitating firms to continually adjust their strategies to adhere to evolving regulations and navigate associated risks effectively. Economic stability serves as a cornerstone, influencing investor confidence, decision-making processes, and the overall demand for investment services. Fluctuations in interest rates and market performance play pivotal roles, directly impacting investment strategies and shaping the financial landscape. Social trends, including demographic shifts and evolving investor preferences toward ethical and sustainable investing, are catalysts for innovation within firms, driving the development of new products and services.

Technological advancements, particularly in the realm of FinTech, offer promising opportunities with innovative platforms and tools. However, the increasing reliance on digitalisation also brings forth concerns regarding data security and cyber threats, requiring heightened vigilance and protective measures.

Legal risks are present in the form of regulatory changes and liabilities, emphasising the critical need for robust compliance frameworks and risk management practices. Lastly, environmental factors have significantly changed the industry, particularly with concerns surrounding climate change, which have fuelled a surge in demand for environmentally responsible investment products, and have compelled firms to integrate environmental considerations into their strategies to align with investor expectations and regulatory mandates effectively.

FinTechs can play a crucial role in helping investment managers in the UK navigate these complexities, and those noted in the figure 4 PESTLE by offering innovative solutions that can quickly turn potential threats into opportunities, ensuring agility and competitive advantage in a rapidly evolving landscape.

Figure 4: PESTLE for external environment of UK investment management industry

Policital	• **Regulatory Environment:** The investment management industry in the UK is heavily regulated by government bodies like the Financial Conduct Authority (FCA). Changes in regulations and regimes, such as Consumer Duty and SDR, can have a significant impact on the industry. • **Tax Policies:** Changes in tax policies, including capital gains tax and inheritance tax, can influence investment decisions and the attractiveness of investment products. • **Geopolitics:** Factors such as trade agreements, diplomatic relations, and global tensions impact the UK investment management industry. Global geopolitical events introduce regulatory considerations and affect risk assessments, requiring adaptability in investment strategies.
Economic	• **Economic Stability:** The overall economic stability of the UK can affect investor confidence and the amount of disposable income available for investment. • **Interest Rates:** Fluctuations in interest rates set by the Bank of England can influence investment strategies, especially for fixed-income products. • **Market Performance:** The performance of the stock and bond markets directly affects investment returns and the demand for investment services.
Social	• **Demographic Trends:** The aging population in the UK has led to an increased demand for retirement and pension planning services. • **Investor Preferences:** Changing social attitudes toward ethical investing and sustainable finance are shaping investment product offerings. • **Education and Awareness:** The level of financial literacy and awareness among the population impacts the adoption of investment products.
Technological	• **Digitalisation:** Advancements in financial technology (FinTech), such as tokenisation and AI, are reshaping the industry, offering new investment platforms and tools. • **Data Security:** Increasing reliance on digital platforms raises concerns about data security and cybersecurity threats.
Legal	• **Regulatory Changes:** Ongoing changes in financial regulations can impact the industry's operating environment. • **Legal Liabilities:** Legal risks and liabilities related to investment decisions, disclosure, and fiduciary responsibilities can affect firms in the industry.
Environmental	• **Climate Change:** Growing concerns about climate change are leading to an increased focus on sustainable and environmentally responsible investments (ESG investments).

Key takeaways

1. **FinTech can:** assist investment managers in making better informed decisions, break down barriers to entry for investors, and enable more efficient processes, saving time and money
2. **Key technologies** that will impact our industry include Blockchain, AI, RPA, Big Data and Analytics, and Internet of Things
3. Firms must focus on providing more **personalised and digitally streamlined services** to meet the needs of the ever-changing end investor
4. If firms do not **embrace technology**, there is a risk that they could lose their competitive edge and market share to more disruptive and efficient firms

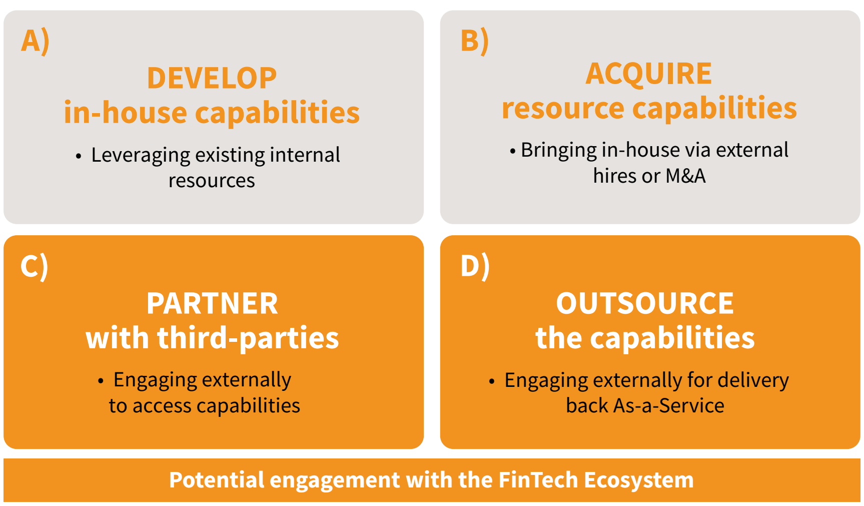
5. Investment Managers' Readiness for Engagement

In the investment management industry, client focus is key. This requires creating an agile operating model that can adapt to clients' evolving needs. Operating models need to be responsive in adapting to the emerging technologies such as AI and machine learning offered by FinTechs amongst others, but at the same time balance this with workforce capabilities and organisational culture changes.[xiii] Introducing new technology from FinTechs not only requires technical readiness for integration, but also organisational maturity in terms of data, business model, skills and culture.

Typically, firms have four main operating models available to them to fulfil capability gaps.
The figure below shows how the options can be broken down into:

- **A)** Develop capabilities (e.g. in-house build and/or internal upskilling)
- **B)** Acquire capabilities (recruit or otherwise elicit expertise) and/or engage externally with third-parties such as FinTechs through
- **C)** Partnerships to access the capabilities
- **D)** Through a full outsourcing model for the capabilities to be delivered back as a full service.

Figure 5: Operating models to extend capabilities



Source: Adapted from: Kwan, A. (2019) Architecting an operating model, Deloitte Insights[xiv]

If the capability required is technology-heavy, the options may be referred to as "Buy", "Build", "Partner" or "Outsource" (or a combination of these). Partnering with a FinTech as the third-party is a common choice. In this context, an evaluation to estimate the potential costs of building in-house (under option A above) is usually undertaken as part of a wider cost/benefit analysis. This should cover both initial implementation and ongoing maintenance thereafter (a three to five year horizon, for example).

A key component of this is the assessment whether an internal build could deliver a real value-add (such as future agility if frequent bespoke changes expected) or other competitive advantage (such as complete uniqueness of offering to end-clients) for the investment firm. This analysis provides a useful baseline for considering FinTech partners.

The Journey to FinTech Engagement

As investment management firms adapt to ever-changing customer demands, market conditions and regulatory changes, gaps in the organisation's capabilities to meet these challenges inevitably emerge. Prior to starting your FinTech engagement journey, it is prudent for an investment manager to carry out a gap analysis to ensure organisational self-awareness and to feed into mitigation planning.

The gaps can show in a broad range of areas, including but not limited to:

1. **Data foundations and governance**

   Building a robust data foundation and implementing effective governance mechanisms are pivotal for the success of investment management firms. Well organised and high quality data serve as the bedrock for making well informed investment decisions, accurately assessing risks, and staying compliant with regulatory requirements. When data is effectively managed, it enables a deeper understanding of client preferences and market trends, empowering the firm to tailor investment strategies to individual needs and seize opportunities promptly.

2. **Business model strategy**

   A well-defined business model strategy lays the groundwork for long term success. This involves not only devising revenue growth strategies, but also carefully planning asset allocation strategies to maximise returns and minimise risks. With the rapidly evolving FinTech landscape, firms need to stay on top of emerging technologies that can revolutionise the industry. Incorporating AI and machine learning into investment processes can significantly improve efficiency, automate routine tasks, and provide valuable insights, ultimately enhancing overall portfolio performance.

3. **Assessing and addressing workforce capability gaps**

   An expert and adaptable workforce is vital for staying relevant in a technology driven world. Identifying and addressing capability gaps ensures that employees possess the necessary skills and knowledge to leverage cutting edge tools and technologies. Training programs and upskilling initiatives can help employees remain competent and stay ahead of the curve, fostering a culture of continuous learning and innovation within the organisation.

4. **Organisational culture alignment with target operating model**

   The success of any transformational initiative hinges on the alignment of the organisational culture with the target operating model. Emphasising a client centric culture throughout the organisation fosters an environment where client needs and satisfaction take precedence. Furthermore, cultivating an agile and innovative culture enables the organisation to adapt quickly to changing market dynamics and client demands, making it more resilient and competitive in the long run. Strong leadership that champions the values of collaboration, innovation, and adaptability plays a critical role in driving this cultural transformation.

Maturity Assessment Where Are You Now and What is The Possible Future?

Investment management firms across the industry vary in the maturity of their engagement with FinTechs. This can range from basic, ad hoc engagement (Level 1), or more formal and regular collaboration (Level 2) through to more strategic and fully integrated engagement (Level 3). The following diagram provides a high-level overview of these levels:

Figure 6: Organisational maturity levels

Level 1: Initial Stage	**Level 2:** Developing Stage	**Level 3:** Advanced Stage
Cautious exploration of FinTech with a tentative approach to change	Active engagement with FinTech, innovation in certain departments	Full immersion in FinTech with a robust culture of innovation
Leadership aware but not fully engaged in FinTech integration	Leadership begins integrating FinTech into the firm's strategy	Deep leadership involvement, ensuring alignment with strategic vision
Organisational and technological infrastructures not optimised for FinTech	Efforts to modernise infrastructures and bridge internal expertise gaps	Agile organisational structure, state-of-the-art technology, significant in-house expertise
Irregular engagement with FinTech, building trust, and partial goal alignment	More structured FinTech engagement, growing trust, and better goal alignment	Comprehensive engagement, high trust, and goal alignment across the organisation

By investment managers symtematically evaluating their maturity across key dimensions, they can position themselves to engage more effectively with FinTechs and capitalise on the opportunities. Figure 7 provides key dimensions for consideration.

Figure 7: Key Dimensions of a Maturity Assessment

Strategy and Leadership

- Aligned strategy
- Executive sponsorship

Capabilities and Resources

- Tech infrastructure
- People, talent and skills
- Integration Capabilities
- Data quality and governance

Culture

- Openness to change
- Risk appetite
- Willingness for external collaboration
- Cultural compatibility

Structures and Processes

- Innovation / change management
- Third-party management
- Scouting and evaluation processes
- Procurement and onboarding
- Delivery management
- Collaboration of internal teams

Refer to the *Appendix B* for an example Organisation Maturity Assessment. It provides example questions in each of the four assessment dimensions in Figure 7, along with potential responses mapped to the different maturity levels (1-3) described above.

Investment managers can utilise such a framework with the following objectives:

1. **Assessing Current State:** Evaluating the current maturity level across all dimensions.
2. **Identifying Gaps:** Highlighting the differences between the current state and desired future state.
3. **Developing Action Plans:** For each dimension, developing specific initiatives to move to the next level of maturity.
4. **Implementing Changes:** Executing action plans, monitoring progress and adjusting as necessary.
5. **Reviewing and Refining:** Regularly revisiting the assessment to reflect changes in the FinTech landscape and the firm's strategic goals

The maturity assessment can help investment managers transition through the levels and thus optimise their readiness to engage with FinTech innovations effectively and seize the inherent opportunities. Figure 8 provides an example of key steps which can be taken to advance your organisational maturity.

Figure 8: Key actions to transition through the Maturity Levels

Level 1: Initial Stage

Level 2: Developing Stage

Level 3: Advanced Stage

Transitioning From Level 1 to 2

1. **Strengthen Leadership Engagement:** Involve leaders in FinTech; integrate goals into vision
2. **Invest in Technology and Talent:** Upgrade tech; hire or train in FinTech expertise
3. **Develop Structured FinTech Engagement Plans:** Draft actionable strategies; include metrics, scale innovations

Transitioning From Level 2 to 3

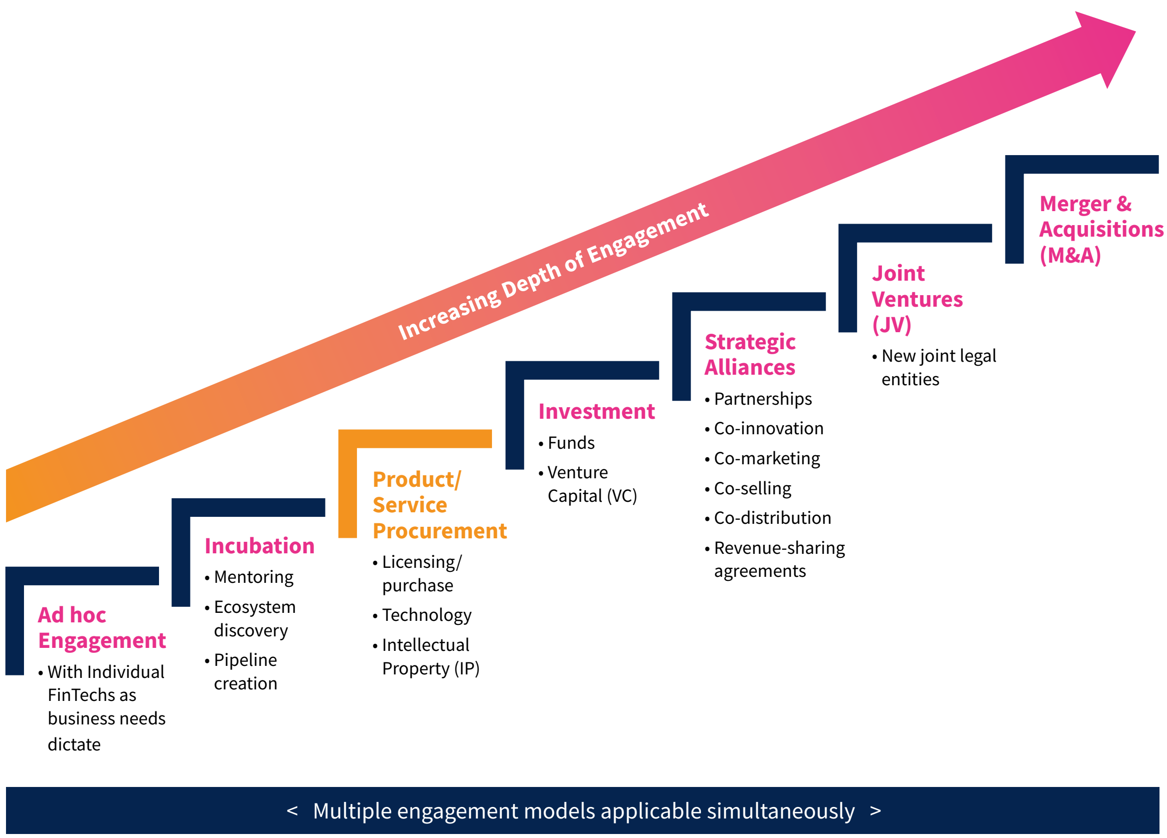
1. **Cultivate a Culture of Innovation:** Promote change, reward ideas, share FinTech successes
2. **Enhance Agile Organizational Structures:** Make structure agile for faster FinTech innovation
3. **Leverage Advanced Data Governance and Analytics:** Implement data frameworks; drive strategies, personalize experiences

Partnering: FinTech Engagement Models

Where the decision has been made to partner externally and with a FinTech, an investment manager has a range of options to structure engagements. The diagram below provides examples of the options available. These vary in terms of depth of engagement as well as corresponding benefits and risks. Multiple types of engagement may be undertaken simultaneously with a given FinTech, for example, software licence procurement from a FinTech in which the investment manager has also invested.

In the next section, we will drill down on what is perhaps the most common level of engagement, product/service procurement, highlighted in the diagram below.

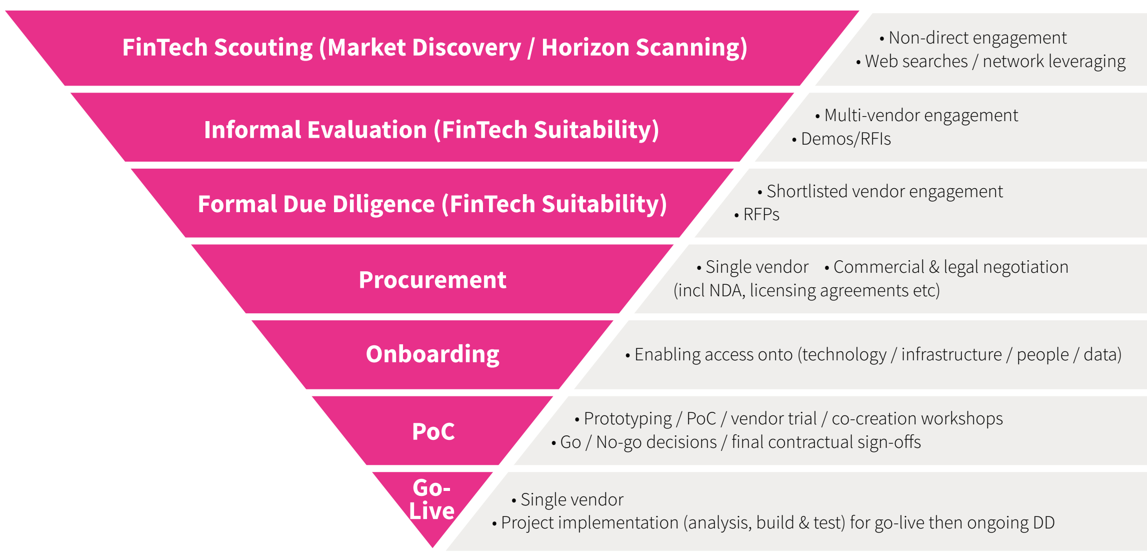
Figure 9: Engagement Models



The FinTech Engagement Process

On the path to engage with a FinTech for product/service procurement, the engagement process normally involves several phases from FinTech Scouting (market discovery / horizon scanning) and FinTech Evaluation, through to narrowing down to a single FinTech for implementation and go-live of the product/service. Figure 10 outlines the typical steps of the FinTech selection process for an investment manager. The process can be viewed as a funnel of discovery as the search narrows:

Figure 10: Typical Funnel of FinTech Selection / Engagement



In the next section, we will focus on the following two key areas from the above:

1. FinTech Scouting (Market Discovery / Horizon Scanning)

2. FinTech Suitability (informal valuation and Formal Due Diligence)

Key takeaways

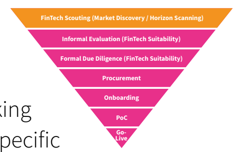
1. **Culture and Change/Risk Appetite:** Foster a culture that embraces digital innovation and possesses a healthy appetite for calculated risks to drive FinTech collaboration success
2. **Strategic Alignment and Executive Support:** Ensure FinTech initiatives are strategically aligned with the firm's goals and have strong backing from executive leadership to guarantee focus and resources
3. **Organisational Capabilities and Resources:** Build robust technological infrastructure and cultivate a talent pool with the skills necessary for integrating and maximizing FinTech partnerships
4. **Structures and Processes:** Implement agile structures and processes that promote cross-functional collaboration and streamline the scouting, evaluation and integration of FinTech solutions

6. FinTech Scouting & Solution Suitability

Introduction:

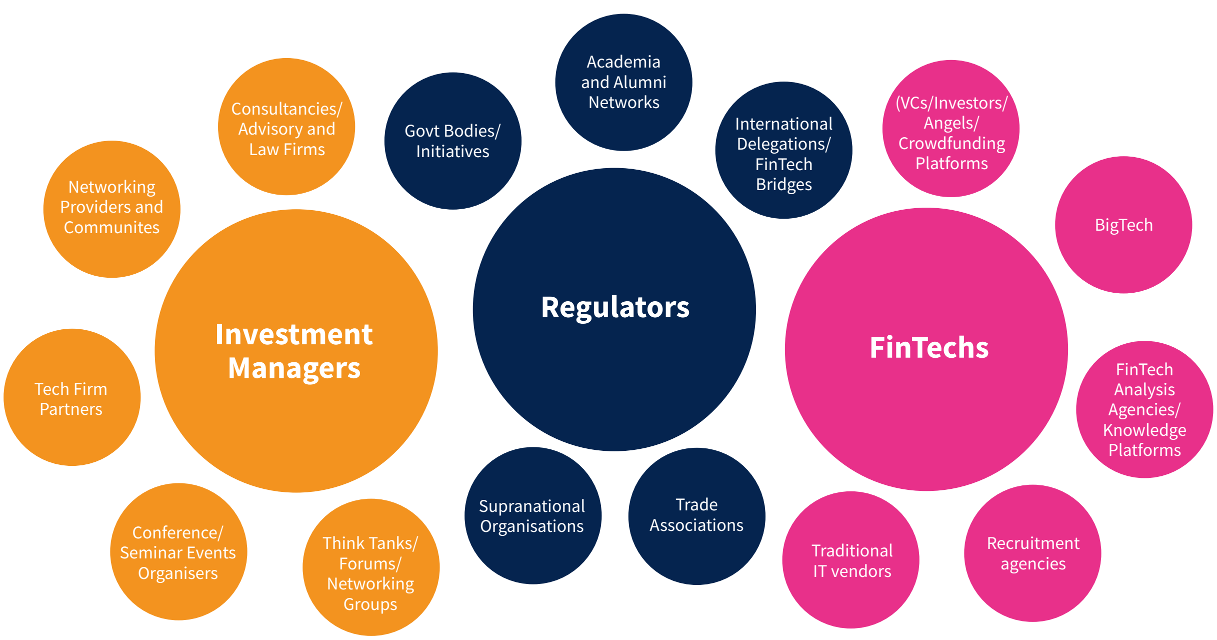
In the rapidly evolving landscape of the financial world, FinTech stands at the forefront, leading waves of innovative solutions. For investment management firms, recognising the potential of these emerging technologies can be the differentiator between lagging behind and leaping forward. But how do you find the right FinTech solutions? And more importantly, how do you ensure suitability for your firm?

1. FinTech Scouting: Start the Journey



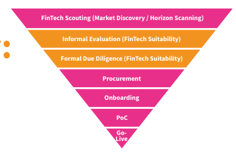
- **Know Your Needs:** Before embarking on the FinTech journey, list down specific problems or inefficiencies you'd like to address. Is it automating processes, enhancing client engagement, or accessing new data streams?
- **Be Alive to New Opportunities:** Don't get caught in a legacy rut, what could a process look like if you started from a blank page? It is crucial to move beyond existing legacy systems and visualize what a reimagined, technology-first approach might look like. Innovation stems from breaking free from traditional moulds.
- **Leverage Industry Organisations and Events:** Engage, network, and collect insights. Regular participation in FinTech summits, webinars, and conferences is not just about gaining knowledge, it is about collecting valuable connections, sharing insights, and identifying potential collaborations whilst also discovering emerging technologies. Industry bodies such as the Investment Association, Engine and Innovate Finance are a hive of information, activity, and support for FinTech firms and investment managers. Make use of the support from industry bodies and other organisations that operate in the wider innovation ecosystem, shown in figure 11.

Figure 11: FinTech Ecosystem in Investment Management



- **Tap Into FinTech Hubs and Accelerators:** These are places where start-ups gather to grow. By collaborating or simply engaging with these hubs, you'll get first-hand access to the latest innovations. Associating with these platforms offers a ringside view of emerging technologies, granting firms the advantage of early adoption. Connecting with hubs and accelerators outside of the UK can also be beneficial as it will provide you with a broader understanding of global FinTech capabilities.
- **Research and Online Platforms:** Research far and wide to find your FinTechs and solutions. There are many websites, reports, and newsletters like Crunchbase, AngelList, and FinTech Weekly which can offer a plethora of information about start-ups, their functionalities, and reviews.

2. Solution Suitability: Pick the Best Fit



- **Align With Your Strategic Goals:** Every FinTech solution, irrespective of its merits, must align with the firm's overarching goals. A great tech solution that doesn't align with your firm's goals can be a costly distraction. Always map potential FinTech solutions to your long-term strategic objectives.
- **Integration & Compatibility:** Consider how easily the solution can be integrated into your existing systems. Emphasis should be on robust API support, ensuring smooth data exchange and processes.
- **Security is Paramount:** Financial data is sensitive. Ensure the FinTech solution follows the highest security standards, adherence to international security standards is non-negotiable. Conduct due diligence, ask for certifications, and if possible, get third-party security audits.
- **Scalability:** Think long-term. Will the solution scale as your firm grows? FinTech solutions should not just serve present needs but also anticipate future growth trajectories, adapting as the firm expands. Ensure that you're not just addressing a current need but also future requirements.

3. Areas of Opportunity

Rather than the age-old approach of looking for problem areas within the business, a more productive approach may be to look for the areas of opportunity. While it's essential to address pain points, the real growth lies in identifying opportunities. Investment managers can redefine entire processes, rather than just fixing parts of them.

Sometimes it is easiest to spot a specific issue or problem within a process that you believe FinTech could address, but in looking for opportunity areas instead you can think more so about how the whole process could be improved by FinTech rather than addressing a specific challenge within the current way of operating.

Identifying areas of opportunity for your business, especially in the context of FinTech, is indeed a valuable approach. Instead of just addressing existing problems, it allows you to proactively improve processes and drive growth. Here are some steps and considerations to help you identify these areas of opportunity:

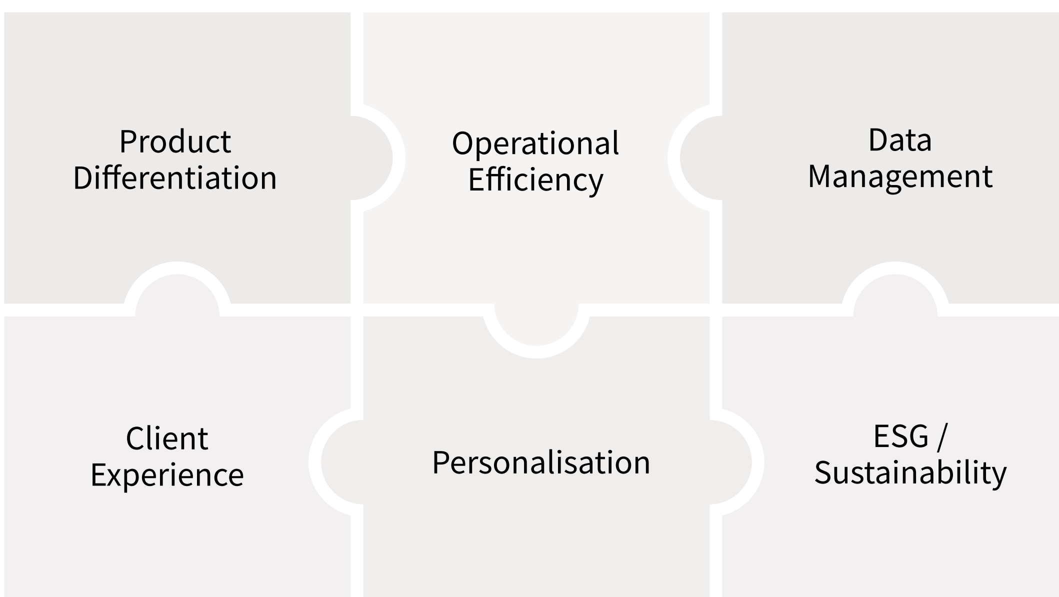
- **Engage with Different Business Areas:** Start by engaging with various departments and teams within your organisation. This could include finance, operations, marketing, customer service, and more. Each department may have unique technology needs and insights into where FinTech solutions can make a difference.
- **Listen Actively:** When you engage with these different business areas, actively listen to their pain points, challenges, and aspirations. Understand their existing workflows and where they feel technology can enhance efficiency or create new opportunities.
- **Think Holistically:** Instead of focusing on specific problems within a process, take a holistic view of how the entire process can be improved. This might involve reimagining the entire workflow rather than just making incremental fixes. Consider how FinTech can transform the way the business operates.
- **Identify Tech Priorities:** Through these discussions, you can identify technology priorities across different departments. Determine which areas have the most potential for improvement and growth through FinTech solutions. Prioritise these opportunities based on their potential impact on the business.

- **Find Key Stakeholders:** As you identify areas of opportunity, look for key stakeholders or champions within the organisation who can support and advocate for these initiatives. Building a coalition of support is essential for driving change and securing resources.
- **Create Business Cases:** Work with your key stakeholders to develop compelling business cases for the identified opportunities. Outline the expected benefits, ROI, and how FinTech solutions can align with the overall business strategy. These business cases will be critical for securing buy-in and funding.
- **Stay Aligned with Strategy:** Ensure that the identified opportunities align with the overall business strategy and objectives. FinTech solutions should contribute to the long-term goals and growth of the company.
- **Continuous Monitoring and Adaptation:** Once you implement FinTech solutions to address these opportunities, continuously monitor their impact and adapt as needed. Technology and business environments evolve, so it's important to stay agile and responsive.
- **Collaborate and Iterate:** Encourage collaboration between different business areas and IT teams to ensure the successful implementation and ongoing optimisation of FinTech solutions. Iterate on processes and technologies to maximise their effectiveness.

By adopting this approach, you can proactively leverage FinTech to not only address existing challenges but also to identify and capitalise on new opportunities for growth and efficiency within your business. This proactive mindset can be a significant driver of innovation and success.

Innovation opportunities exist throughout the value chain and within business departments; the ability to improve efficiencies, to optimise data and to personalise experience are just some of the use cases.

Figure 12: Areas of Innovation:



4. Structuring an Approach

Structuring your approach to FinTech or start-up scouting enables your team and the organisation to operate and innovate more effectively. A structured approach also enables you to effectively analyse a solutions strengths and weaknesses, alongside how it can benefit your organisation.

5. How Should you Structure your Approach?

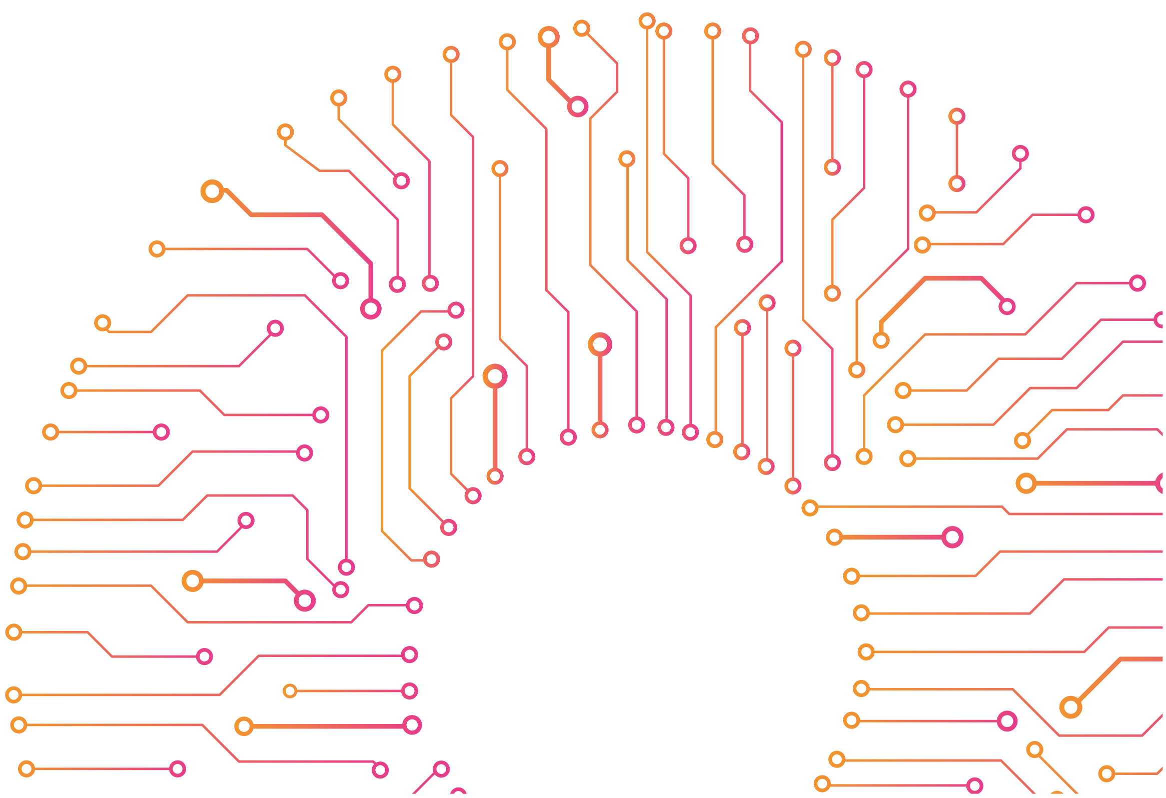
- Ensure your scouting is aligned to the firm's wider business strategy. To do so you can spend time speaking to senior figures to understand priority areas that have an opportunity for technology innovation. For example - Is the strategy to grow one specific area of the business? How could FinTech solutions support this?
- Speak to different business areas to identify and understand where there is demand and opportunity FinTech solutions. This also helps identify internal business sponsors.
- Follow industry trends and competitor activity – If other firms are announcing partnerships in a specific area, perhaps it could be worth researching further or looking for areas of collaboration.
- Develop your own framework to analyse FinTech solutions and how they can potentially work with and benefit your organisation.

Also, it pays to be 'FinTech ready' by having a clear and understandable onboarding and operational processes (including procurement, NDA setup, agreement, signing) and initial engagement steps defined and made clear so the FinTech can deliver or negotiate towards known expectations. Financial terms should be understood and payment early and swift as cashflow is often critical to a FinTech's early days.

6. Putting Together an Evaluation Framework

With numerous FinTech solutions vying for attention, having a well-defined assessment framework is paramount. A structured framework allows you to objectively analyse and evaluate solutions, support the decision-making process, as well as contribute to risk mitigation.

Although a FinTech / Start-up may be early in their journey towards a sustainable approach, by including this point in your evaluation framework, you can encourage good stewardship and that your chosen supplier is aligned with your organisation's values and goals related to sustainability, DEI, and ESG.



Assessment points that could be included in the framework include (non-exhaustive):

Solution Fit:

- Determine if the FinTech solution can seamlessly integrate with your current technology stack.
- Evaluate whether it conforms to industry standards and regulatory requirements.
- Consider how the solution addresses business continuity and disaster recovery needs.

Team & Domain Expertise:

- Assess whether the FinTech team possesses relevant industry experience, particularly within the investment management sector.
- Determine if they have worked in regulated environments, as understanding regulatory requirements is crucial for compliance.
- Check if they have clients in your industry, as their experience with similar clients can be advantageous.

Sustainability, DEI and ESG alignment:

- Examine the supplier's commitment to sustainability, DEI (Diversity, Equity and Inclusion), and ESG (Environmental, Social and Governance) principles. Assess their track record in promoting environmental responsibility, social equity, and corporate governance.
- Inquire about their sustainability initiatives, such as efforts to reduce carbon emissions, minimize waste, or support renewable energy sources.
- Investigate their diversity and inclusion practices, including workforce diversity, equitable hiring and promotion practices, and initiatives to foster an inclusive workplace culture.
- Consider whether the supplier's products or services align with ESG criteria, such as ethical sourcing of materials, responsible manufacturing processes, or transparent governance structures.
- Request information on any relevant certifications or recognitions related to sustainability, DEI, or ESG compliance that the supplier has obtained,
- Explore opportunities for collaboration with the supplier on joint sustainability and DEI initiatives that can mutually benefit both organisations.

Capabilities and Requirements:

- Evaluate whether the FinTech product aligns with the specific project requirements of your investment firm.
- Ensure that the product's capabilities meet your firm's needs, including any customisation or integration requirements.

Coverage and Presence:

- Determine if the FinTech solution is designed for local, regional, or global use. Typical variations to consider here are support models, language, regulation, personalisation and compliance.
- Consider the geographical footprint and the ability of the solution to cater to a multinational investment firm's diverse need.

Growth and Development:

- Investigate the FinTech's growth trajectory, including its funding history and financial stability.
- Analyse how the product has evolved over time, as this can indicate its commitment to innovation and future potential.

Commercial and Delivery Model:

- Examine the pricing model of the FinTech solution to ensure it aligns with your budget and cost expectations.
- Inquire about their track record in implementing projects of a similar scale or complexity.
- Understand the support and maintenance requirements for the solution.
- Discuss the engagement and delivery model, including the process for Proof of Concept (PoC), success criteria, and implementation risk management.
- Gain insights into the change management process and the handling of software upgrades or database changes.

By thoroughly evaluating these assessment points, investment firms can make well-informed decisions when selecting a FinTech solution that not only meets their immediate needs but also aligns with their long-term strategic goals. This structured approach helps mitigate risks and ensures a successful partnership with the chosen FinTech provider.

The framework should be documented as solutions are analysed, iterated over time as the firm learns from start-up engagement i.e., are some factors more important than others?

Once you have set your assessment framework this serves as the consistent standard for all assessments going forward. Remember to maintain the assessment framework and update it over time to keep it ‘alive’ and reflect any change either within or outside your organisation.

7. For Those Just Starting Out

Embarking on the FinTech journey can seem daunting, but remember, every investment management firm was once at this starting line. Take small, calculated steps. Start by attending a local FinTech event or setting up a brainstorming session within your firm to identify key pain points. FinTech is as much about the journey as the destination. Embrace the adventure, learn continuously, and stay agile.

Investment management rejuvenation and transformation offers investment managers a route to better efficiency, deeper insights, and improved client relations. Scouting the right solutions and ensuring their suitability is key.

The process of FinTech scouting and ensuring solution suitability might appear complicated. However, with a systematic and structured approach, it can be streamlined and effective. Always starting with a clear understanding of your firm's needs, engaging with the larger FinTech ecosystem, and maintaining an ongoing relationship with FinTech providers are all crucial steps in this journey.

The focus should not only be on addressing current challenges but also on identifying areas of opportunity. This proactive approach will position investment management firms at the forefront of industry advancements.

While technology is a significant driver, the human element remains indispensable. Encouraging team engagement, understanding user perspectives, and building a culture of continuous learning and adaptability will fortify a firm's FinTech endeavours.

In the dynamic world of FinTech, the race doesn't go to the swift but to those who are prepared. And with the right strategies, investment management firms can harness the wave of technological advancements to propel themselves into a brighter, more efficient, and innovative future.

Top Tips for Improving FinTech Selection and Engagement:

A number of steps may be taken by investment management firms to mitigate the risk of potential pitfalls and improve FinTech engagement through all the phases including the following:

1. **Engage Your Team:** Solutions are only as good as their users. Including end-users in the decision-making process ensures the solution addresses real challenges. The people who will be using the solution day-to-day can offer invaluable insights. From your IT team to frontline staff, their feedback is gold.
2. **Test Before You Invest:** Engaging in a PoC (Proof of Concept) can highlight unforeseen challenges, ensuring smoother full-scale integration later. Where possible, opt for a PoC as the tailored and visual nature will provide much better insight than documentation heavy Request for Proposals (RFPs). Depending on the agreement, PoCs may allow you to gauge the solution's effectiveness without full-scale commitment. In such a PoC, always agree success criteria upfront and be transparent with your acceptance process. Some start-ups will naturally need to charge to cover costs for any PoC to take place. Ideally successful completion should be a gateway to both further engagement, contract and payment. Ensure that non-functional requirements such as solution scalability are discussed as part of the process.
3. **Explore Use Cases & Stay Updated:** Establish a central innovation unit by creating a use case team internally to review the potential of FinTech solutions in various areas of the business. The innovation unit should also keep up to date on the fast moving world of FinTech to ensure that no opportunities are missed.
4. **Build Relationships:** FinTech scouting isn't a one-time activity. Build lasting relationships with FinTech providers. It's a two-way street; as they grow, you benefit.
5. **Agree on a Minimal Viable Product:** In discussions with business areas internally and FinTechs externally, employ the agile concept of MVP (Minimal Viable Product) to ensure coverage of all mandatory requirements (especially regarding data requirements and integration points) and to strictly limit scope to key objectives. Nice-to-have requirements can add undue complexity and risk the overall delivery so should be avoided.
6. **Clear Honest Communication:** Don’t lead FinTechs on, be clear about the opportunity, the potential and the reality of a deal. This is a win-win for both sides as no time, effort or precious funding is wasted.

PART 2 (for FinTechs)

7. **FinTech Perspective:** Procurement with Investment Managers

The Sales Process

Despite the pressing desire of investment managers to transform their businesses and adopt new technologies, it's common for FinTechs serving the investment management industry to experience sales cycles that stretch into years. Part of this can reflect the maturing of a FinTech's product, but also be a sign that not all investment managers are 'FinTech ready'. Below we identify important considerations in positioning FinTech services to the investment management industry.

Navigating What can be a Closed Industry

Creating the opportunity for a conversation with the right person in a investment management industry firm can be an enormous challenge. For FinTechs, brand is a common obstacle and subliminal barrier. Individuals may not be open to meetings or discussions with little-known third parties. Many investment managers also have a history of in-house technology development, so may treat FinTechs with healthy scepticism.

Making the most of networks can be a powerful entry point, but the reality is it takes much more than one contact (that may not be very relevant to your offering) to progress an opportunity. Traditional business development processes, such as cold emails and calls, often yield limited success. Although a research-driven approach can help to cut through the barriers. For example, using meticulous research to identify a relevant contact, being highly personal in your approach and ensuring absolute relevance to them.

Despite often having limited immediate payoff, marketing is important and FinTechs can be adventurous in their approach. For instance, they can articulate ideas that challenge industry convention and apply newer marketing strategies not adopted by large incumbents.

Thought leadership and content-driven approaches are useful for opening doors, while case studies and any track record of clients helps further to establish credibility. A vibrant industry exists to streamline and enhance your sales and marketing processes. But be careful not to over-engineer your approach if your product is still maturing. Your addressable market may also be too small for anything resembling a 'numbers game'.

Achieve Buy-In from the Users and Architects

For a sale to occur, FinTechs must gain buy-in from both the relevant business area (and users) as well as those involved in the planning of their technology and operations architecture.

Often, a user champion may not be aware of their own organisation's planning processes (nor buying procedures). In fact, it is not uncommon for user champions to ask a FinTech for help in creating a business case to lobby their internal stakeholders. Meanwhile, those responsible for the big picture may not appreciate the pain points experienced in some parts of their organisation. They may also focus on how your solution sits within a wider ecosystem, rather than the specific problem you solve.

A firm's systems architecture may also be influenced by technology consultants that help investment managers to arrive at targeting operating models and the accompanying technologies to underpin that. This can add another dimension into the sales process and stakeholders to influence.

Ultimately, FinTechs must be well-versed at conversing with and convincing different levels and areas of an organisation and bringing those different stakeholders together.

Overcoming 'Conway's Law'

Conway's law infers that the systems of an organisation will mimic their communication and divisional structures. Put another way, legacy technologies have often been built to serve individual teams, not transform a business.

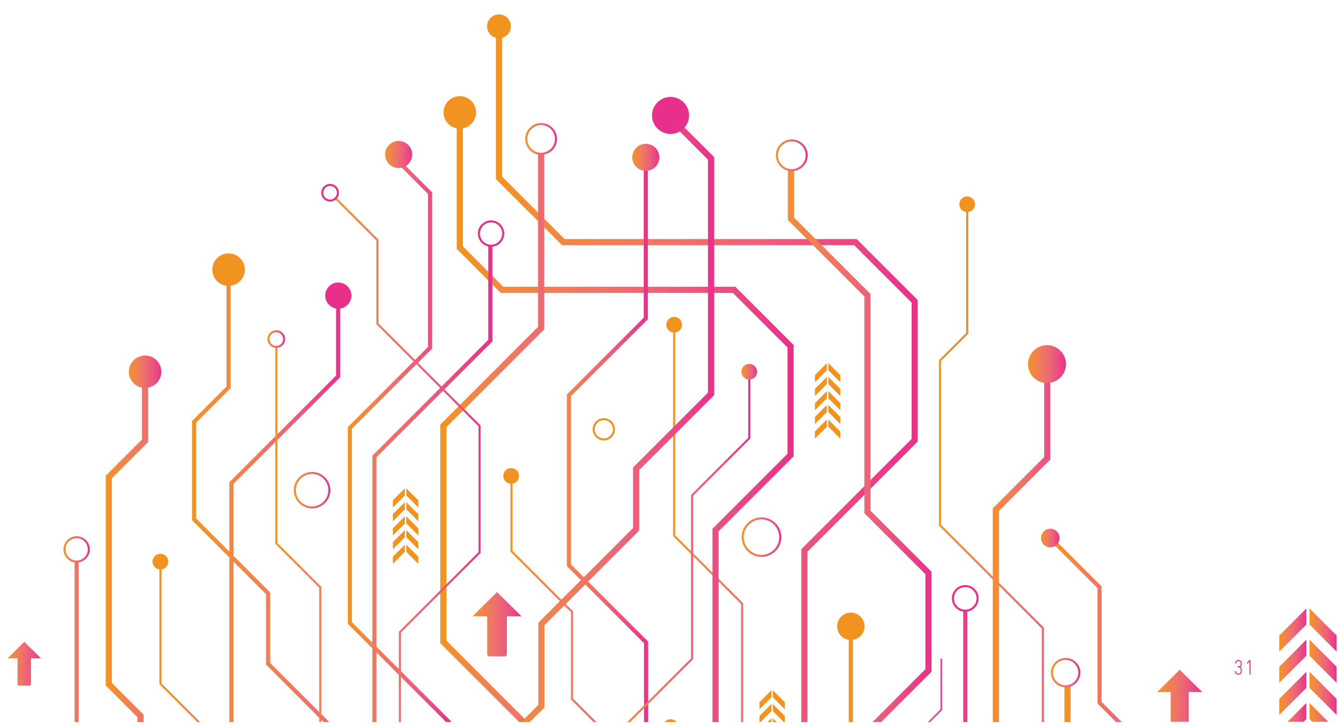
By nature, the services offered by FinTechs won't often fit into an organisation's current technology, team and cultural structures - it may stretch beyond a siloed function. This complicates the process of identifying user champions and ensuring your service fits into the architecture plans. It also complicates finding cost sponsors - your service may not naturally align to a single division's budget, rather a mix of many. FinTechs facing this challenge (and being truly transformative) should turn this into an opportunity by bringing it into the forefront of their product positioning and the value-add they offer.

To Demo or Not to Demo…

A software sales textbook will tell you to hold back a product demo until only after discovery is complete and you have a complete understanding of your prospect's pain points. In practice, when to demo may depend on the situation and individual.

Investment managers are previous with their time. Getting a door open or developing interest in a call or meeting may have been a long time in the making. A simple practicality is that creating extra steps between discovery and demo can add months into your sales process simply because of diarising those additional meetings or calls. Ultimately, FinTechs must be respectful of their prospect's time and need to be flexible in applying their sales process. For instance, do not assume you've earnt the right to conduct deep discovery with a fresh contact. They may be expecting to hear about you first.

Never treat discovery as a substitute for research that could have been conducted independently. Prior to any call with a contact, you should have gained good knowledge on their firm, their role and how that relates to the services you provide. Tactics also need to adjust to the individual you're talking to. For example, a conversation with a C-suite representative will be vastly different to a technical user. Finally, ensure your meetings align to the expectations of your prospect. If a meeting was arranged off the back of a marketing campaign and specific 'call to action', then ensure that is what's delivered.



Understanding the Journey for Investment Managers

To structure the best approach for dealing with prospective clients, it is helpful to understand the process from their perspective. However, the individuals you are dealing with may never have bought technology before. Therefore, it helps to map the typical buying journey and refine that with your client. This way everyone is clear on what needs to happen next. Aligning those steps with critical dates is key to keeping up momentum. The following table, figure 13, provides an example of the typical steps required and how you might track them. Note that it does not conclude when the contract is signed. The stage many FinTechs see as deal completion is when your client wants to see results!

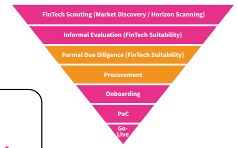
Figure 13:

Phase	Key Action	Timeline	Who will be involved?	Completed by*
Review & Selection	Client need clarified	4 weeks+		
	Technical team aligned			
	Key stakeholder presentation(s)	2 weeks+		
	Final Questions/Review			
	Final Approval			
Financial Approval	Final proposal delivered	2 weeks+		
	Internal review of pricing			
	Financial approval of solution			
Security Approval	Security & architecture review	2 weeks+		
	Security & architecture approval			
Execution	Mutual delivery plan agreed	1 week+		
Legal & Contracts	Procurement engaged	3 weeks+		
	MSA & SoW delivered			
	Legal review/redlines			
	Contract Signed			
Delivery & Go-live	Implementation	2 weeks+		
	UAT & Training			
	Go-live			
	Project 1			

Top tips:

1. It is important to develop your brand to build reputation, this can be achieved through building a strong network, having a cohesive marketing approach, and positioning yourself as thought leaders
2. FinTechs must gain buy-in from both the relevant business area (and users) as well as those involved in the planning of their technology and operations architecture
3. Research prospect client firms and individuals before speaking to them and always tailor your approach to the conversation
4. Understand the buying journey and guide your client through it

Navigating Procurement



There is no point selling the latest and greatest FinTech software if your target market cannot buy it.

Investment managers are regulated; and thus, subject to strict requirements on how they manage systems and data. This means that you, their vendor, are automatically subject to a subset of their regulations if you wish for them to buy your solution.

The more sensitive and business critical your service is to the investment manager, the more you will be grilled on your Information Security (aka "InfoSec") and general business process and policy.

Each investment manager will have their own set of procurement and InfoSec questions. The questions are delivered to FinTechs in two ways. The two most common are:

A spreadsheet of up to 200 questions across multiple tabs

A procurement platform that has a wizard style interface for firing questions at you one at a time.

Here are some examples of common due diligence questions investment managers will ask:

1. How do you secure customer data? Describe your encryption methods.
2. What is your backup policy and frequency?
3. Have you had any data breaches in the past 3 years?
4. Do you have a SOC2 or ISO27001 audit certification?
5. Who are your key cyber insurance providers and coverage levels?
6. Provide a summary of your financial performance over the past 2 years.
7. What SLAs do you offer for system uptime and response times?
8. How many customers have you onboarded in the past 12 months?
9. Can you provide two reference customers we can contact?

Refer to the Appendix for a more detailed list of due diligence requirements

The process is long, arduous and time consuming, but it's all that stands between you landing a new client.

It is best to prepare for the process and get through it as quickly as possible because after all – time kills deals and contracts cannot be signed with your new client until procurement give you the green light.

The procurement team are typically brought in towards the end of the sales cycle. At a well organised investment manager, they will be aware of your intention to supply and ready to receive you, especially if there has been a formal RFP. Otherwise, expect to have to explain your company background and solution at a high level to an entirely new set of individuals.

The order of the procurement steps might differ slightly but at a high level the steps to navigate are:

Complete RFP/ Sales Process

RFPs often include critical procurement questions including baseline InfoSec to rule out firms who cannot pass InfoSec at RFP stage.

Complete the Commercials

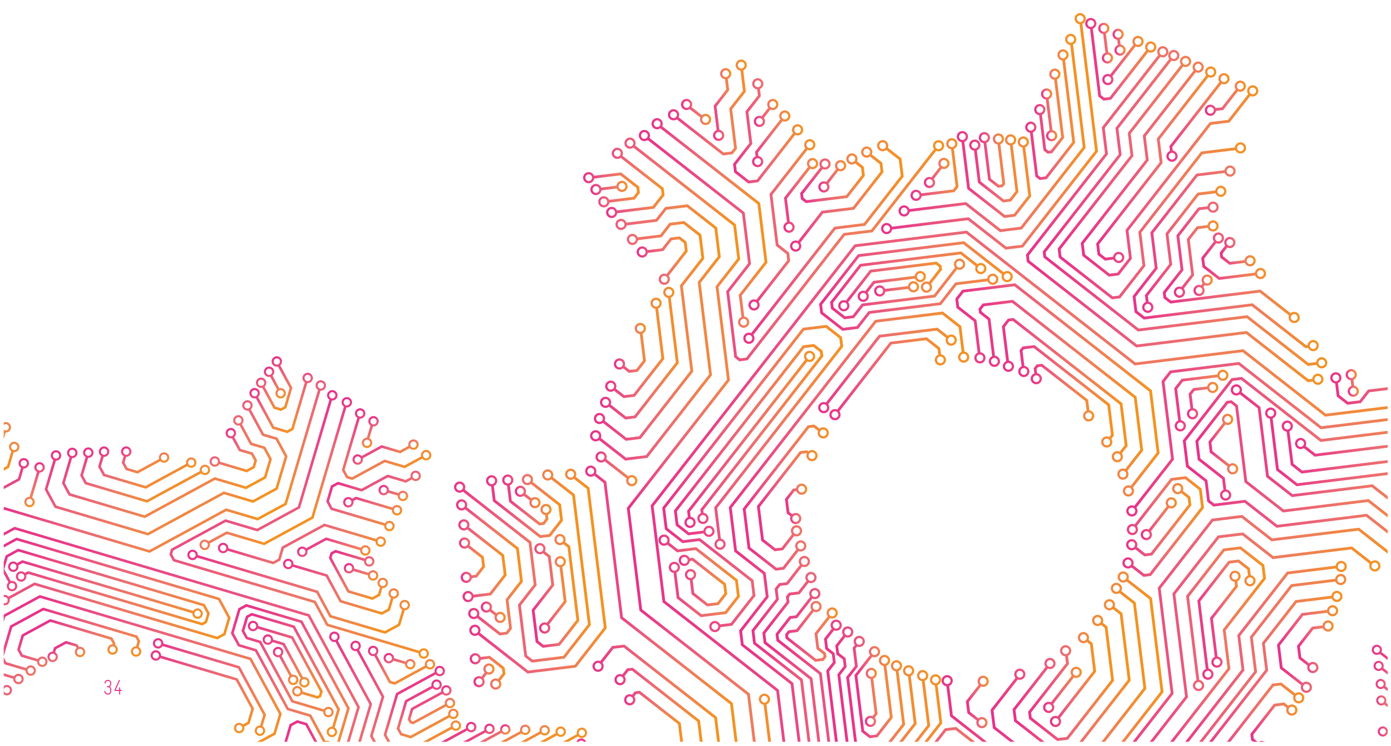
a) Contract minimum term.

b) Fees – expect your fees to be scrutinised again, even if they've been agreed in principle.

c) Delivery timelines.

Share Draft Contracts and go Through a Redlining Process

Sometimes the investment manager will supply their framework draft agreement to start from, but most expect you to have a draft contract. It's usually more efficient (read faster) to start from the investment manager's framework agreement. Expect significant back and forth on liability clauses, IP protection, data security terms and more before landing on a mutually acceptable contract.



What You Will be Expected to Evidence

Most questions will ask for some form of evidence. For the majority of questions, you will need to supply a few lines on how you meet the criteria or provide information about your business.

However, some of the questions will need to be backed up with relevant paperwork that evidence work performed behind the scenes to meet one or more requirements.

The minimum you can expect to be asked for as documentation and evidence:

1. **Full accounts for the past two full years of trading:** Firms prefer the accounts to be audited, but generally recognise that most small firms will not be audited. A letter from your accountant is usually sufficient for the audit request.
2. **Reference clients:** A minimum of 1, but ideally 2 or 3. Better still, firms that are similar in size and shape to the firm asking for references. Some firms have a sign off process for their staff to provide references which can take weeks to complete – so if you need to ask for a reference, best to do so well in advance.
3. **Insurance:** (PLI, ELI, Professional Indemnity, Cyber, Employee Theft) from a reputable insurer
4. **Valid and audited:** ISO 27001 or SOC II. Cyber Essentials Plus is a nice to have. (Here are some step-by-step guides on *ISO 27001 certification* and *SOC II*).
5. **Business Continuity Plans / Disaster Recovery / Information Security Policy:** All three of these are included in an ISO 27001 Information Security Management System.
6. **Penetration tests by a 3rd party:** Performed at least annually and after every large change to your solution's architecture
7. **Your supplier code of conduct:** Including modern slavery, employee conduct, anti-bribery and other high-level information about how your FinTech operates ethically and sustainably
8. **Service level agreements:** Outlining your commitments for system uptime, response times, technical support, etc.
9. **Data protection and privacy policies:** Documenting how you handle sensitive customer information

Preparing for the Procurement Puzzle

There is plenty of work you can do to prepare your business for the level of scrutiny most asset managers will perform on it as part of procurement.

The reality is that if you are relatively new (trading under two years) you will struggle to deliver on all of the above evidence, so below we have set out the minimum requirements for you to be able to present to firms.

For new FinTechs, having strong customer references and testimonials will be crucial to building trust during procurement. Identify a few friendly early adopters who can take reference calls and vouch for your capabilities. Also seek out procurement "champions" or sponsors within asset managers who can advise you on requirements and smooth the onboarding process.

Regardless, having clear and robust security, privacy and compliance policies will help streamline procurement. Offering certifications like ISO 27001 also goes a long way.

You should aim to meet the level of 'good' across all the elements below at a minimum, otherwise firms may struggle to onboard you.

Reference clients

You need references (idea: give out free PoCs in return for a reference).
Some firms struggle to provide references due to company policy or protracted reference sign off processes, others are less sensitive

Good ★☆☆	**Better** ★★☆	**Best** ★★★
You've performed a PoC for a client or two, they're happy with it and are considering taking it forward. They are happy to provide an email reference to confirm this is true.	You've fully delivered your solution to at least one happy client who will provide an email or telephone reference.	You have a range of pre-written statements on how good your system is and contacts who are on hand from at least 2-3 firms of varying sizes who will email or telephone your prospect.

Business backing

Backing from senior sponsors helps smooth out bumps in procurement processes. The more widespread and senior the buy in is from the business side, the more they can pull rank to get you through procurement.

Good ★☆☆	**Better** ★★☆	**Best** ★★★
The department you are engaged with loves your product and is evangelising up to senior decision makers for you.	The senior decision maker has met you, has budget, and is ready to buy you.	The entire business from the CEO down is bought in to your solution and everybody is ready to move forward after procurement.

Information Security evidence

Get your paperwork in order prior to starting the procurement process. Some of the evidence will take months to create (e.g. ISO 27001).

Find a consultant to give you a boilerplate ISMS for your ISO 27001. It's typically not expensive because it is just a pack of Word/Excel documents. This means you do not have to start the ISMS from scratch. Most of the ISMS documents are standard across all FinTechs and just need to be tailored to your specific setup. You can even ask other FinTechs who have ISO 27001 if they would mind sharing their starting templates.

Good ★☆☆	Better ★★☆	Best ★★★
You have basic BCP, Disaster Recovery, and Information Security documents in place. Your founders/directors are regularly managing and updating these documents.	You have, or are working towards an ISO 27001 and/or SOC II and have a third-party auditor lined up ready to review you or have completed your first review.	You've been audited for ISO 27001 and/or SOC II more than once, and can supply paperwork from the audit. You also hold additional accreditations such as Cyber Essentials Plus.

Finances

Expect to be asked for two years of full accounts (not just those that are publicly available).

Good ★☆☆	Better ★★☆	Best ★★★
You've been trading two years and can supply accounts for this period.	You've been trading at least two years and can supply accounts and a letter on the financial situation of the business from a reputable accountant.	You've been trading at least two years and can supply fully audited accounts.

Penetration tests (aka "PenTests") and vulnerability assessments

Good ★☆☆	Better ★★☆	Best ★★★
You can supply a PenTest less than 12 months old from one of your in-house team, ideally somebody who has security expertise.	You can supply a PenTest less than 12 months old from one of your in-house team who is a security expert and you run vulnerability monitoring and reporting software.	You can supply a PenTest from a third party and you run vulnerability monitoring and reporting software.

Technical and security best practice

There are several best practice technical architecture baselines you must build into your solution.

Given that these are all easy to implement in modern cloud architecture at little to no cost there's no reason not to have these in place from the outset:

1) Single Sign On

2) Encryption at rest and in transit

3) Password hashing

4) Data separation – even on a multi tenanted setup you probably want each client to have their own database

5) Data retention – each customer might wish for you to have a specific data retention policy for their data so you may wish to make this configurable.

6) Backup policy with backup restoration times should something go wrong

Top tips for Shortening the Procurement Process

Each time you successfully progress through a procurement process you and your business will mature and grow. Here are some hints and tips that will help you on the journey:

1. Be transparent with your business contact at the investment manager about what stage of maturity your business is at but also be confident in your approach. If you are solving a genuine problem, they will find ways to help you through the procurement process if you are proactive.
2. Ask your business contacts early on what the procurement process looks like and what the “gotchas” are. It does not make you look naive to ask this, each firm is unique and it's sensible to find out upfront.
3. Procurement teams are often on a bonus driven by their ability to squeeze further discounts out of vendors during the procurement process. Keep at least 10%, perhaps 20% if you can, in your margins to play around for these negotiations after the business has signed off your fee structure.
4. Be extremely responsive to information requests and questions from procurement teams. Quick turnaround shows you are organised.
5. Make sure your policies and technical documentation are current and comply with all regulations upfront. No scrambling delays.
6. Demonstrate transparency on service issues and roadmap plans. Unexpected surprises hurt trust.
7. Offer to walk through your security and operational processes via screenshare before paperwork starts.
8. Suggest reasonable compromises on contract terms when there are sticking points. Don't let perfect be the enemy of good.
9. Highlight references from firms with similar requirements and risk profiles.
10. Ask for feedback on how you could improve for future due diligence processes.

8. Concluding Remarks

As this whitepaper has demonstrated, the investment management industry and FinTech ecosystem both have their complexities, but the opportunities are vast. Collaboration is becoming more crucial for the innovation that firms need to survive in this ever evolving and competitive world.

We urge you to use this guide within your organisations to streamline processes and adopt best practices which will ultimately expedite time to market and quality of our products to clients and end-investors.

Additional Support is Available from the Investment Association and Engine Teams

Investment Managers:

- **Visit Engine's Solution Directory:** If you are an investment manager looking for innovative FinTech solutions, visit Engine's solution directory, a filterable database that allows you to search for FinTech solutions by asset and business class, tech area, or value chain position.
- **Find Out More About IA Membership:** The Investment Association (IA) support more than 270 investment managers through membership. Current members of the IA have access to a knowledge centre with consultation responses, guidance and statistics relating to a broad range of industry topics including innovation. If you are a current member that would like to connect with the IA's innovation policy leads, or if you are not a member but would like to better understand the benefits of membership, please contact members@theia.org

FinTech Firms:

- **Find Out More About Engine Membership:** Engine supports over 150 FinTech firms through membership and assists in promoting their solutions to the investment management industry. Engine also provides a variety of initiatives to support firms through their growth journey, from event opportunities to raise the profile of the firm and their expertise, through to open sessions and software discounts. View our Engine information pack to find out more about the benefits of Engine membership, or contact info@theiaengine.com to discuss options with the team directly.

9. **Appendices**

Appendix A

Financial Services FinTech Due Diligence Requirements			
Requirement	**Summary of Data**	**Possible Data Sources**	**Group**
Legal Name	The official registered name of the FinTech entity	Company registries, government websites, business filings	Basic Business Information
Business Type	The legal structure or form of the business entity (e.g., corporation, LLC, partnership)	Company registries, government records	Basic Business Information
Registration Number	The unique identifier assigned to the business entity by government authorities	Company registries, government records	Basic Business Information
Jurisdiction	The geographic location (country, state, etc.) where the FinTech is registered or incorporated	Company registries, government records	Basic Business Information
Date of Incorporation	The date on which the FinTech company was officially incorporated or registered	Company registries, government records	Basic Business Information
Ownership Structure	Information about the ownership structure, including major shareholders and beneficial owners	Shareholder registers, ownership records, beneficial owner declarations	Ownership and Governance
Beneficial Owners	Names and details of individuals or entities considered beneficial owners with significant control or ownership interest	Beneficial ownership declarations, shareholder records	Ownership and Governance
Regulatory Status	Confirmation of the FinTech's regulatory status, licenses, and approvals	Regulatory authority websites, licenses and permits databases	Regulatory Compliance
Regulatory Compliance	Details about compliance with specific industry regulations and licensing requirements	Regulatory authority records, compliance certificates	Regulatory Compliance
AML/KYC Policies	Information on the FinTech's anti-money laundering (AML) and know your customer (KYC) policies and procedures	Internal policy documents, public disclosures	Regulatory Compliance
Sanctions Screening	Confirmation of compliance with sanctions-related regulations and results of sanctions screening	Sanctions lists, government databases, compliance reports	Risk Assessment
PEPs (Politically Exposed Persons)	Verification of checks for politically exposed persons (PEPs) and their associations	PEPs databases, public disclosures, internal checks	Risk Assessment
Financial Statements	Financial data, including balance sheets, income statements, cash flow statements, and financial performance indicators	Financial reports, audited financial statements	Financial Information
Funding History	Information on past funding rounds, investors, and valuation details	Funding announcements, investor disclosures, press releases	Financial Information
Credit Scores	Creditworthiness assessments and credit scores of the FinTech entity	Credit reporting agencies, credit reports	Financial Information

Financial Services FinTech Due Diligence Requirements			
Requirement	**Summary of Data**	**Possible Data Sources**	**Group**
Operational Risk	Roles, risk classification, outsourced activities & reporting	Internal documentation, disaster recovery plans	Operational Resilience
Data Security and Privacy	Information on data security measures, encryption methods, and data handling policies. Compliance with data privacy regulations	Security certifications, privacy policies, GDPR compliance	Operational Resilience
Security Certifications	Mention of security certifications such as SOC 2 or ISO 27001 certifications	Security audit reports, certifications	Operational Resilience
Incident Response Plan	Description of the FinTech's incident response plan in the event of security breaches or incidents	Incident response documentation	Operational Resilience
Insurance Policies	Details about insurance coverage, including cyber insurance and liability coverage	Insurance policies, coverage documentation	Operational Resilience
Cybersecurity Policy	Information on the FinTech's cybersecurity policy, including security protocols and measures	Internal cybersecurity policies, documentation	Operational Resilience
Business Continuity Plan	Information on the business continuity plan outlining how the fintech ensures operations during disruptions	Internal business continuity plans	Operational Resilience
Disaster Recovery	Details on the disaster recovery strategy, including recovery processes in case of system failure	Internal disaster recovery plans	Operational Resilience
Pen Testing	Information on penetration testing conducted to assess cybersecurity vulnerabilities	Pen testing reports, assessments	Operational Resilience

Appendix B

Example Organisational Maturity Assessment

Culture and Change/Risk Appetite

How open to change is your organization?

(Level 1) Resistance to change is common, and innovation initiatives are sporadic. Example: New software tools are often met with scepticism unless proven elsewhere.

(Level 2) There's general openness, with some departments more receptive than others. Example: The marketing department regularly experiments with new digital tools.

(Level 3) Change is embraced organization-wide, fostering a culture of innovation. Example: A company-wide hackathon is held annually to generate and prototype new ideas.

How would you describe your organisation's level of trust and risk appetite in FinTech strategies and their execution across your organization?

(Level 1) Emerging trust. Example: Previous FinTech failures have left some stakeholders wary.

(Level 2) Growing trust and confidence. Example: Recent FinTech project successes have begun to rebuild confidence.

(Level 3) High trust and widespread confidence. Example: A track record of successful FinTech implementations underpins a culture of innovation and trust.

Strategic Alignment and Executive Support

Does your leadership actively support and direct FinTech initiatives?

(Level 1) Leadership is aware but not actively involved. Example: Leadership mentions FinTech in speeches but allocates no budget.

(Level 2) Supportive with some involvement in key decisions. Example: A C-level executive is designated as the FinTech innovation champion.

(Level 3) Fully engaged, providing clear support and direction. Example: The board approves a significant annual budget for FinTech R&D and pilot projects.

Is there a shared understanding and goal alignment on FinTech initiatives within your organization?

(Level 1) Partial alignment. Example: Misalignment between the tech team's capabilities and the business's FinTech aspirations.

(Level 2) Good alignment, with some areas of disconnect. Example: Departmental FinTech champions work to align goals and strategies across the organization.

(Level 3) Full alignment and collaboration. Example: FinTech objectives are integrated into the company's core values and performance metrics.

Organisational Capabilities and Resources

How would you describe your organizational structure's support for FinTech integration and innovation?

(Level 1) Rigid, traditional structure. Example: Departments operate in silos, hindering cross-functional FinTech innovation efforts.

(Level 2) Some adjustments made for more flexibility. Example: Temporary task forces are created for exploring specific FinTech opportunities.

(Level 3) Agile and conducive to rapid innovation. Example: Permanent cross-functional teams focus on continuous FinTech integration and innovation.

Can your technology infrastructure and integration capabilities support FinTech innovation?

(Level 1) Outdated IT infrastructure. Example: Frequent downtime and incompatibilities with newer FinTech solutions.

(Level 2) Modern infrastructure with some integration capabilities. Example: Investment in middleware to facilitate integration with a range of FinTech APIs.

(Level 3) State-of-the-art technology infrastructure. Example: Adoption of microservices architecture to ensure flexibility and rapid integration of FinTech innovations.

How effective are your data management practices and policies and governance in supporting business requirements and technology solutions?

(Level 1): Implementing basic data governance and improving data access.

(Level 2): Good data policies and governance, with reliable quality data readily available in some areas.

(Level 3): Advanced data management practices and governance, with widespread access to high-quality data.

Do you have the talent and skills necessary for FinTech innovation?

(Level 1) Limited FinTech expertise. Example: Most FinTech-related tasks are outsourced due to a lack of in-house expertise.

(Level 2) Some in-house FinTech expertise; training provided occasionally. Example: A dedicated FinTech liaison officer is appointed to bridge gaps between IT and business units.

(Level 3) Rich FinTech expertise and continuous learning. Example: In-house FinTech incubator program that nurtures talent and fosters innovation.

Structures and Processes

Do you have clear engagement plans for FinTech initiatives?

(Level 1) Engagement is ad-hoc. Example: FinTech initiatives are pursued based on the whims of individual team leaders.

(Level 2) Some structured engagement plans. Example: Annual FinTech strategy sessions to identify and prioritize initiatives.

(Level 3) Comprehensive, dynamic engagement strategies. Example: A strategic FinTech partnership framework is in place, enabling quick and effective collaborations.

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