

**MOTIVE** PARTNERS



# The Importance of Ecosystems Economics

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AS HENRY FORD SAID, "IF YOU ALWAYS DO  
WHAT YOU'VE ALWAYS DONE, YOU'LL  
ALWAYS GET WHAT YOU'VE ALWAYS GOT".

Innovation and collaboration have been a hot topic in today's business community in recent years, particularly within Financial Services. Technology has had a profound impact on all industries and it has enabled the rate of innovation to increase dramatically. It comes as no surprise that according to PwC's Global Top 100 Company report of 2017, 20% of the global top 100 companies by market capitalization are pure technology providers, not including businesses such as Amazon and Alibaba that provide their services solely through technology. By nature, innovators are pathfinders and pioneers, but more than ever they require commitment and support from the industries they serve and an environment that enables partnership and competition.

**Ecosystem economics** has never been so important.

## Why does successful innovation today require partnerships?

If we benchmark innovation as deploying new market leading technologies to make consumers' lives and businesses' operations more efficient, cost effective and secure, then it is our firm belief that the best way to do this is via partnership models.

By nature, partnerships can and should help create economies of scale, which many smaller firms are unable to create effectively alone but can contribute to plentifully alongside other businesses. In Research & Design, ensuring the economic benefits of multiple parties inputting their own expertise can lower the cost, add to the outcome and critically reduces duplication of R&D time and cost.

From a global perspective, international partnerships and communication can help businesses improve R&D duplication. While some inefficiencies are acceptable, as technology breaks down international logistics and communication barriers, these will become less acceptable. Cost and time efficient R&D is a crucial part of innovation and improving equity value, therefore by improving knowledge transfer, ensuring wide spread best practice and increasing the size of the network across the globe through partnerships, we improve the overall outputs – distribution is the new capital, in more ways than one.



## What are the right ingredients for global innovation hubs?

The Z/Yen Group's GCFI index defines a financial centre as: 'Financial centres funnel investment toward innovation and growth. Vibrant, competitive financial centres give cities economic advantages in information, knowledge and access to capital.'

The key ingredient for the nuanced Innovation Hubs, building on the definition above, is collaboration and international partnerships. Geographic location is often perceived as major barrier to international partnership success, particularly when growing a business into new markets. Creating bridges between countries is a simple solution for this as it breaks down barriers into new markets and improves the likelihood of cross-border relationships. Look no further than the UK, creating FinTech Bridges and providing access East & West, or Turkey as the gateway to Asia and the UAE for access into the Middle East and North Africa. However, it is important to remember that GDP is driven by businesses not Governments, and that the responsibility should be on businesses to form business-to-business partnerships.

For innovation hubs to exist, right touch regulation is key. In today's Financial Services sector, there is arguably nothing more important than pro-competition regulation with directives like PSD2, MiFIDII, GDPR and regulations alike outside of Europe instructing the industry towards more fairness and transparency for the benefit of the consumer and businesses alike. For these regulations to work effectively the industry must work together to create and adhere to the new benchmarks and standards. Regulators must also be open and ready to work with businesses to create this environment and create more of a win-win ethos in an industry that has been traditionally plagued by greed. The UK's FCA has been a leader in setting these standards for the Financial Services sector. The FCA's Regulatory Sandbox is a prime example and has been replicated across the globe. The sandbox allows businesses of all sizes to test their operations and compliance in a safe environment, and gives regulators a chance to learn and improve regulation based on real-time data.

## What are the biggest opportunities in Financial Services innovation via collaboration?

The creation of collaborative industry utilities in non-competing areas of Financial Services is the logical next step for the industry. Due to stakeholder, regulatory and consumer pressures financial institution Boards are under pressure to improve efficiencies by investing in innovation, reducing overheads and then also increasing top-line growth and capital risk ratios. Building utilities solves both these issues and create upside for those that buy-in via equity value creation, but most importantly increase in effectiveness as more partners are added to the utility, driving down the servicing costs. Obvious areas to create utilities in Financial Services include: trade surveillance, post-trade settlements, creating data and AI focused utilities.

Similarly, having international partnerships on issues such as cyber-security, data and compliance is essential, particularly as technology embeds itself further into society. For this to happen cross border partnerships between regulators and businesses is critical.

By collaborating more globally we will also improve system risk and risk management in allowing businesses that solve global problem partner via the network effect. A company like LMRKTS, that reduces risk by providing multi-lateral and dimensional portfolio compression in a way that drives down exposures and reduces costs for every participant, has the potential to create benefit across the global economy – the company has reduced over \$4 trillion of counterparty risk in the past 18 months alone. And as a network model, its true potential will be achieved the more partnerships agreed – the embodiment of **Ecosystem Economics**.

## ABOUT MOTIVE LABS

As an innovation catalyst and value-creation engine, Motive Labs is a membership-only innovation and investment organization that supports Motive Partners' mission to back and build the next generation of financial technology. Motive Labs leverages the best of both leading institutions in financial services and technology to create new ways to serve customers, operate with efficiency and scale, adhere to an ever-changing regulatory environment and evolve their own models and business lines.

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