Closing the gap in fintech collaboration

Overcoming obstacles to a symbiotic relationship

These days, most conversations with financial services executives inevitably circle back to what's happening in fintech. The industry is buzzing with chatter and activity on fintech strategy, experimentation, investment, acquisition, and integration.

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No function, department, or individual seems immune in an environment where the nature of work across almost every industry is being disrupted by a number of factors. Rapidly evolving digital technology is driving increased automation, affecting the proximity of where work is performed, and giving rise to new and open talent models. With so much change in the air, many provider organisations are understandably apprehensive about how to grapple with such exponential change and its implications on how, where, and by whom work gets done. What these organisations need to keep in mind with this shift is the immense opportunity to alleviate current pain points like nursing shortages and physician burnout, and refocus professions on mission-oriented, fulfilling work.

World Economic Forum founder, Klaus Schwab, has dubbed this transformation in the way work is performed "the Fourth Industrial Revolution"—making the distinction that it is not about replacing people, but rather how new technologies are "fusing the physical, digital, and biological worlds." This augmented workforce combines people and machines to get things done in a way that is not only more productive, but also more rewarding to the worker.

While these conversations have been taking place for several years now, what seems to have changed is the tone, content, and sense of urgency in such discussions. We've moved well beyond speculative theory about what fintechs might be able to do for the industry and into practical application. Most incumbents recognise that while some fintechs may be coming after a piece of their market share, more often than not these tech-driven startups offer new tools, platforms, capabilities, and approaches to improve customer experience and bolster operations. With collaboration and co-development on the rise, the lines between incumbents and insurgents are starting to blur.

Yet many institutions dealing with fintechs are finding the transition in mind-set and operations to be challenging, even frustrating. Interviews with more than two-dozen incumbents, fintechs, and accelerators from across the industry and around the world identified a number of hurdles, both internal (often involving organisational or corporate culture issues) and external (such as regulation and lack of industry-specific expertise among startups) still to be overcome.

Problems: Obstacles hinder emerging ecosystem

Generic pitches, lack of industry experience undermine startup credibility

One point we heard repeatedly during our interviews is that financial institutions have become much more demanding about what they expect from fintechs pitching products or investment opportunities. "Incumbents are no longer being taken in by fintechs that merely 'talk the talk,'" according to a leading fintech accelerator. Indeed, they noted, the focus has shifted from "cool" generic ideas to practical solutions addressing specific problems in a particular financial services sector.

Moreover, we were told that these days most financial institutions and individual investors prefer to see evidence that fintechs can deliver on what they promise, rather than place their bets on theoretical pitches. This seems to be reflected by the recent pivot in investment trends, with the number of new fintech launches down substantially, yet the amount of capital being raised remaining robust[1]. With launches in steep decline, money is now flowing into later funding rounds, a trend Deloitte first identified last year in our initial report on fintech investment trends.[2]

> "One of the biggest challenges facing fintechs is the difficulty of achieving mass market adoption and scale. This is where banks have the advantage. The question for fintechs is whether to scale independently, prove value and a better client experience or to collaborate with a bank partner."
>
> **Cillian Leonowicz, Director, Consulting, Head of Business Development, EMEA Blockchain Lab,**
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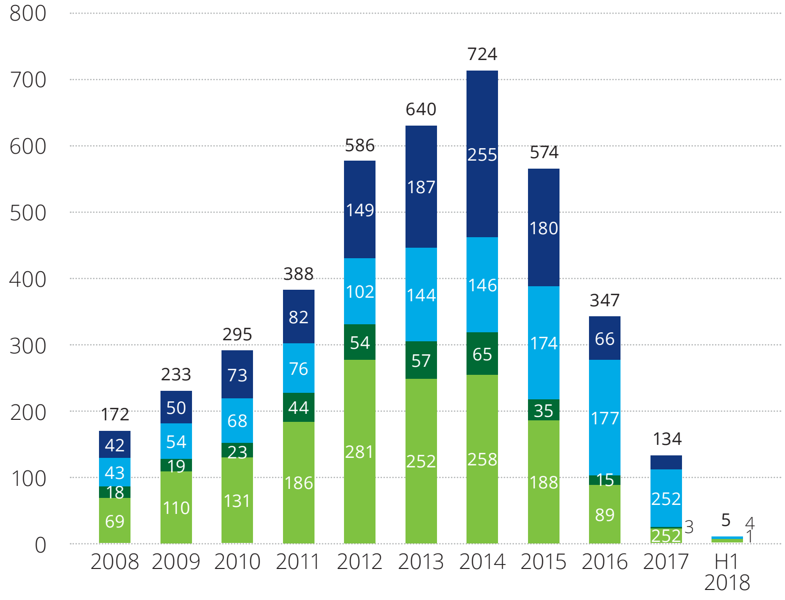
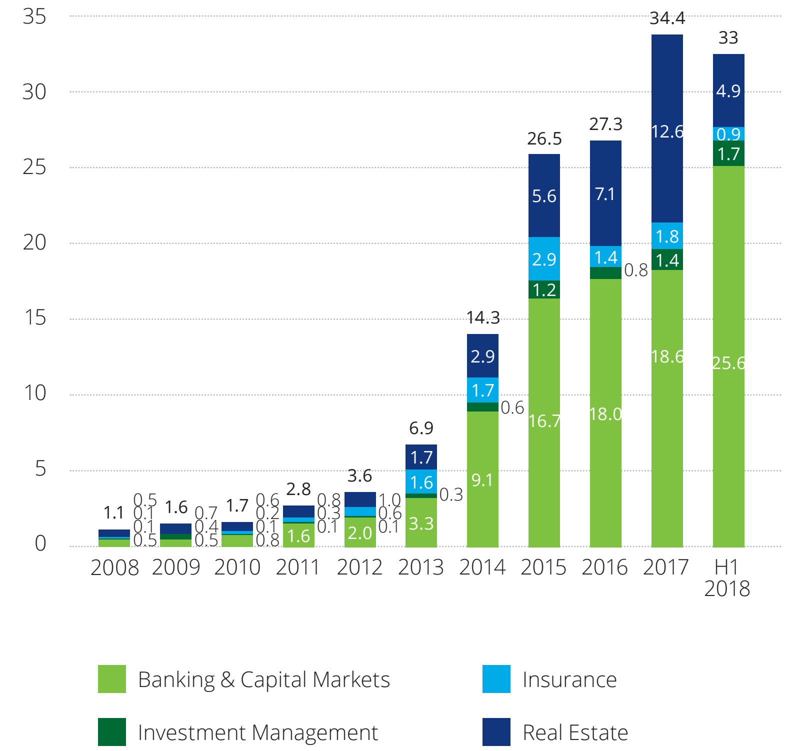
1. Deloitte Centre for Financial Services, "Closing the gap in fintech collaboration: overcoming obstacles to a symbiotic relationship," 2018.
2. Jim Eckenrode and Sam Friedman, "Fintech by the numbers: Incumbents, startups, investors adapt to maturing ecosystem," Deloitte Center for Financial Services November 2017, https://www2.deloitte.com/content/dam/Deloitte/tr/Documents/financial-services/dcfs-fintech-by-the-numbers.pdf.

Fintech companies founded by year, 2008–H1 2018



Investments in fintechs by sector 2008–H1 2018 ($B)



Numbers may not sum to totals due to rounding.
Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Process barriers often a major hurdle
Structural handicaps and lack of coordination within incumbents were the most common obstacles cited by the fintechs interviewed. Internal awareness and communication are often lacking, accelerators told us, which should highlight the importance of establishing coordination among various departments and business units when engaging with fintechs, whether as an investor, partner, or acquirer.

Many incumbents we spoke with conceded this point. "We probably don't do a great job of coordination," said one global bank. "We come at this from a number of different perspectives," including an in-house venture capital entity, an innovation lab, an accelerator to drive internally developed solutions, and initiatives by individual business units. "We don't have a single common thread to interact with fintechs across the firm."

Collaboration across teams is key, says Leonowicz. "Banks need to broaden their perspective while fintechs need to realise they won't make it if they speak solely to the innovation team at the bank. Both parties need more people around the table."

Organisational speed bumps can undercut fintech propensity for rapid experimentation
Rather than adopting the quick decision making and fast-fail approach common within the fintech community, incumbents may be undermining attempts at collaboration with their own decision-making processes and risk management requirements. Most institutions we spoke to agreed the industry needs to be more decisive when doing due diligence and negotiating deals with fintechs, as well as faster in prototyping and wider-scale implementation after an investment is made. However, some incumbents noted that speeding up the process may be easier said than done. One large bank said the challenge is usually multifaceted and not simple to overcome: "How do we transform our culture to not be afraid of failure, to be more agile, to work as teams,

and transform our mentality on tech to be much more aligned to the needs of a digital organisation than just a banking organisation?"

Yet some fintechs suspect the typical barriers they run into— including regulation, compliance, and cybersecurity concerns—may often be more of an illusion or the result of overcompensation than actual hurdles. "The mind-set is often 'regulators won't like this,' or 'this is how we've always done it, so better to be safe,'" according to one Swedish fintech. "Regulators want banks to be more efficient, have better technology, to be more transparent, to provide better services, yet banks seem hesitant to test how far they can push things. It's a hard balance."

Financial institutions struggle to establish expectations, measure success

While incumbents continue to demonstrate their commitment to innovation by pouring capital into fintechs, there's far less certainty as to how to measure the success of such investments. Some have exact quantitative expectations, while others emphasise qualitative considerations. Neither is right or wrong, but the narrower the definition of success, the less likely institutions are to benefit from experimentation.

> "Procurement is another area where process barriers exist. Banks typically require vendors to have a balance sheet of €5m to €10m something very unrealistic for a fledgling fintech. More flexible arrangements are needed. Some banks provide incubators as a safe environment in which to grow while others allow fintechs to subscribe to an app store concept provided by the large traditional core system vendors."
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Quantitative — Metrics — Qualitative

Some FIs won't engage with a fintech without quantifiable ROI...

Not just activity, but revenue produced—e.g., number of policies sold, loans executed online, transactions via app

Hard targets for time and cost savings over specific periods

Sales of fintech solution to the broader financial services market

...but most FIs also have goals that are qualitative or "squishy"

What have we learned from the investment?

Have we significantly changed how we do business?

Have we moved our overall transformation vision forward?

What is the feedback from internal and external customers?

Solutions: Bridging the chasm preventing effective collaboration

Incumbents prefer dealing with more advanced fintechs, for a variety of reasons. Besides technical know-how, they are seeking fintechs that are better positioned to meet the requirements of major financial institutions and understand what's practical, achievable, and scalable for their particular sector.

On the other hand, experience doesn't necessarily equal value when it comes to breakthrough innovations. While mature fintechs with specific industry expertise may be more attractive to incumbents in many respects, there are also likely to be innovative ideas introduced by new startups relatively unfamiliar with the financial services industry. Even industry novices may provide a fresh perspective that could make a dramatic difference, particularly in areas of financial services where transformation appears to still be in its very early stages, such as commercial insurance.

Therefore, some suggested that it might be unwise to discount generic proposals out of hand if the startup has an intriguing idea that could be customised for a more distinctive use in financial services. One European bank noted that, "it's sometimes the dreamers who come up with something that becomes very relevant. You do not want to limit these dreamers."

The possibilities may seem endless, and it's nearly impossible to identify all the most promising fintech investments, partners, or targets. Several executives noted that this is where they rely on advisors, such as accelerators or other expert third parties familiar with the global fintech marketplace. Even with sensing and tracking processes, it is often difficult for institutions to allocate the resources and find the time to meet with and understand the solutions of so many fintechs, spread out around the world. They expect these trusted partners to bring them recommended solutions.

Incumbents require a quicker, clearer, more coordinated collaboration process

A better-coordinated governance and organisational structure could solve many ills hampering fintech collaboration. Yet while some incumbents we interviewed have more formal systems in place than others, most don't have a clear port of entry for fintech proposals, or a defined path for fintechs to navigate once an institution indicates its interest.

From sensing to due diligence, from experimentation or investment to implementation and achieving scale, incumbents should have a clear path, dedicated roles, and accountability for success. One institution established standardised filters to assess whether a fintech investment or collaboration is worth their time and money and fits into the company's overall strategy. Among a host of factors to consider: the experience of the founders and the team; the network of advisors that they have built; how well they have defined and addressed a specific problem; how well capitalised they are; who financed them and how many people/entities are involved; and their ethos as relates to data security and monetisation.

Fintechs we interviewed often suggested that it would help if incumbents appointed a single individual or dedicated coordination unit with wide visibility and sufficient authority to clear internal roadblocks, resolve interdepartmental conflicts, and keep projects moving forward. Several institutions established a central clearinghouse to keep key players in the loop and avoid working at cross-purposes among the company's innovation lab, venture capital fund, and corporate development team. Early-stage plans, success stories, and cautionary tales are shared during regular status meetings.

Such coordination can make a big difference. One bank has at least five fully staffed teams that work together to take fintech projects from experimentation to commercialisation within 90 days. They operate as squads in an assembly line, leveraging skills from across the bank.
But no matter how incumbents choose to manage their fintech initiatives, maintaining a centralised knowledge base and facilitator should help avoid duplication of effort, inefficiencies, and other logistical problems down the road.
For fintechs, there are numerous advantages to operating within the banking industry including the mass audience that banks provide along with access to direct payment systems, regulatory frameworks and approval from licensing authorities. These advantages may be critical to generating scale and achieving profitability.

> "The trick is getting the bank business, operations, compliance and product development teams to make the dreams a feasible reality."
>
> **Cillian Leonowicz, Director, Consulting, Head of Business Development, EMEA Blockchain Lab,**
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Investment decisions may go beyond dollars and cents

So, how do incumbents determine where to place their investments? We found a variety of standards and expectations among those interviewed.

Some are willing to invest pre-revenue, but not pre-product. Most appear to prefer a pitch that shows a little traction a prototype over a blueprint, at the very least. But for the right opportunity and fit especially for ideas that are a little further out there in terms of potentially shaking up standard products or operating procedures investing pre-revenue may make sense, especially if it's going to be a while before market demand develops.

In addition, while having a tightly focused fintech strategy is important, it also could be risky for institutions to restrict investments to the exact number of areas they put on a white board. Their ability to respond might be limited if they come across innovations they hadn't anticipated.

When investing, goal setting whether quantitative or qualitative should depend on what the institution is looking to achieve and the type of relationship they have with the fintech. An insurer partnering with an online distributor focuses on the number of policies sold monthly and average face amount, as well as the percentage of applicants needing regular medical underwriting versus straight-through processing. They hold regular touchpoints to review results and investigate the reasons behind any problems meeting expectations on both sides.

Others were less concerned about meeting hard metrics versus determining a fintech's overall transformational impact. When assessing return on investment, one insurance carrier said, "It's a little bit squishy and qualitative as to results. We don't draw clear lines in the sand about what we expect to get up front. It's a learning experience, not just a financial investment." We heard the same from a payments company. Learning, while hard to measure, is certainly a key expected outcome of an investment. For example, having an opportunity to serve on the board of a fintech and observe could be a meaningful learning experience.

Other institutions defined fintech ROI as return on innovation, rather than on pure financial investment. What is the impact of a particular solution on ease of doing business and the client experience? Which business units are actually making a change in their platform or product offering as a result of their engagement with fintechs?

Financial institutions should also appraise fintech investments holistically. For example, merchants may look not only to get cheaper payments through a fintech solution, but at how to get more comprehensive data on their customers for service and marketing advantages at the same time.

> "Do the banks really have a choice but to change their culture and approach? The reality is that market confidence, in once trusted brands, has been eroded. This is reflected in declining share prices with global brands witnessing double digit year on year losses in stock valuations. If a bank is to survive and thrive into the future, then its vision and mission, and moreover its modus operandi must be centered on 'customer centric digital platforms'. Fintech assimilation and collaboration will be central to this!"
>
> **Cillian Leonowicz, Director, Consulting, Head of Business Development, EMEA Blockchain Lab,**
> Deloitte Ireland LLP

What's ahead for incumbents and fintechs?

Most expect the relationship between incumbents and the fintech world to keep maturing over the next few years, probably at an accelerated pace. Consolidation and more platform plays are likely as fintechs begin to seek traction in an increasingly competitive market and incumbents look for more sophisticated partners. Meanwhile, many venture capital and private equity firms are likely to cash in on their early investments and start selling off the survivors. This trend may create more acquisition opportunities for financial institutions and other fintechs interested in absorbing their competition or expanding capabilities and offerings.

To advance collaboration, financial institutions and fintechs need to be more open-minded, tolerant, and accommodating to facilitate, rather than hamper, innovation and transformation. By realising a mutual need for coexistence and codependency, incumbents and fintechs are more likely to survive and thrive amid the rapidly changing competitive landscape and rising customer experience expectations. If they can overcome the inherent obstacles holding them back from working together more effectively, that would be to their mutual benefit, and ultimately, to the benefit of financial services customers.

Key takeaways

- Financial institutions are far more likely to collaborate than compete with fintechs, yet often struggle to interact effectively with the faster-paced, less structured fintech world.
- These incumbents often lack a clear path for fintech approval and development and struggle with setting benchmarks to measure success.
- To overcome these barriers, incumbents should implement a fast-fail approach to fintech experimentation and establish a precise engagement path with a single point of initial contact.
- For their part, fintechs must refine their pitches to align to real-world challenges and demonstrate both industry and technical expertise.
- Going forward, consolidation is likely as fintechs seek more traction in an increasingly competitive market and financial institutions look for more sophisticated partners.

This article is sourced from
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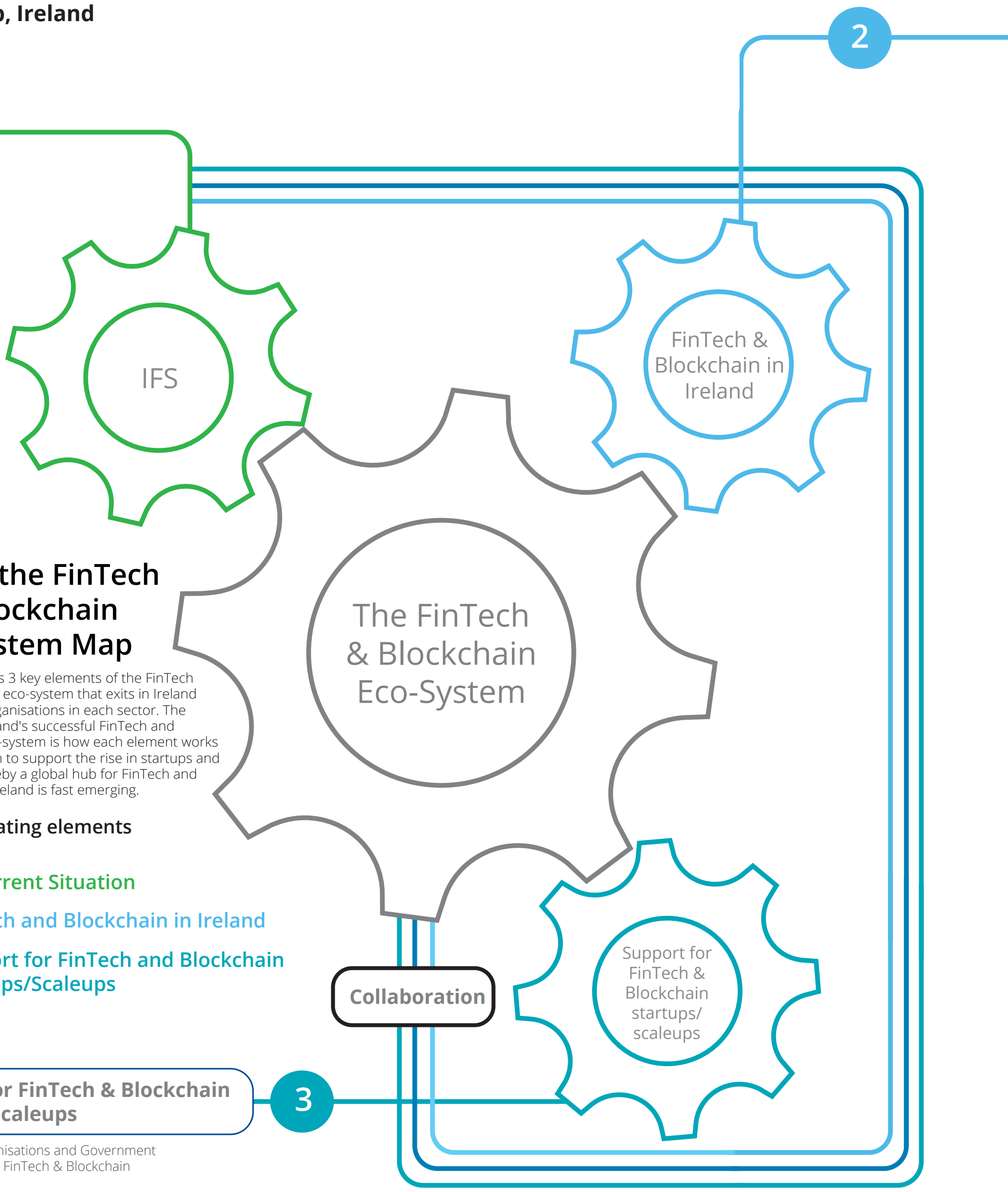
FinTech and Blockchain Eco-system Map, Ireland



FS Current Situation

An overview of International Financial Services in Ireland, with an estimate of employee numbers in each sector.

Banking — 10000+

Citi
JP Morgan
BOI Global Markets
Bank of America Merrill Lynch
Barclays
Credit Suisse
Goldman Sachs
Ulster Bank
Wells Fargo
AIB

Funds (incl. Asset mgmt) — 10000+

State Street
BNY Mellon
BNP Paribas
HSBC Securities Services
Northern Trust
CITCO
JP Morgan
Quintillion
HedgeServ
GlobeOp
Citi

Aircraft leasing — 600+

Avolon
AWAS
GECAS
ORIX
SMBC
FLY
AerCap

Insurance — 4000+

Aegon Ireland
Allianz Re
Allianz Worldwide Care
Augura Life
AXA Life Europe
AXA MPS
Barclays Assurance
Barclays Insurance
Canada Life Europe
Darta Saving Life
Europ Assistance
Generali PanEurope
Hawthorn Life
MetLife Europe
New Technology
Old Mutual International
PartnerRe
Prudential International
Scottish Mutual International
SEB Life International
St. James's Place International
XL Group

Payments — 3000+

Paypal
Elavon
Chase Paymentech
Mastercard
Western Union
Realex

Other — 5000+

IT Solutions
Professional Services
Corporate Treasury

About the FinTech and Blockchain eco-system Map

This map shows 3 key elements of the FinTech and Blockchain eco-system that exits in Ireland and the key organisations in each sector. The essence of Ireland's successful FinTech and Blockchain eco-system is how each element works in colloboration to support the rise in startups and scaleups whereby a global hub for FinTech and Blockchian in Ireland is fast emerging.

3 collaborating elements

1. FS Current Situation
2. FinTech and Blockchain in Ireland
3. Support for FinTech and Blockchain Startups/Scaleups

Support for FinTech & Blockchain startups/scaleups

An overview of organisations and Government agencies supporting FinTech & Blockchain startups/scaleups.

Incubators/accelerators

Launchbox
NRDS Launchpad
Propeller Venture
Accelerator
Nova UCD
NRDC Fintech
Dogpatch
MasterCard start path
HubSpot

Investors

ACT Venture Capital
The Bank of Ireland Capital VF
Frontline Ventures
Ion Equity
Cardinal Capital Group
Better Capital
Halo Angel Network
Insure.vc
Atlantic Bridge
Delta Partners
NDRC

Industry Labs/Accelerators/ Research Centres

Citi Innovation Lab
Aon Centre for Innovation and Analytics
Accenture Innovation Lab
Mastercard Labs
Zurich Cyber Security Centre
Liberty Cyber Security Centre
Fidelity Software Development Centre
Pramerica Software Development Centre
Deloitte EMEA Financial Services Blockchain Lab
INTEL
First Data
IBM
SAP

Government supports

Science Foundation Ireland (SFI)
Enterprise Ireland (EI)
Irish Development Agency (IDA)
The Irish Business and Employers Confederation (IBEC)

Industry/Academic Collaborative Research Centres

UCD Centre for Cybercrime Investigation
UL Data Communications Security Lab
DCU Dependable Systems Group
CeADAR
INSIGHT
GRTCG
LERO
TSSG
ICHEC
GRCTC

Funding

New Frontiers ED Programme
HPSU Feasibility Grant
Strategic Marketing Review
Eurostars
Competitive Start Fund

Events/Iniatives/Associations

Blockchain Ireland - IDA Initiative
Blockchain Association Ireland - blockchain advocates/network
Crypto Coast - services/events
FinTech & Payments Association of Ireland (FPAI)
FinTech Ireland - association/network
CHAINHACK - events/ blockchain hackathon

FinTech & Blockchain in Ireland

An overview of companies operating in Irish FinTech & Blockchain with an estimate of employees in most domains.

Blockchain & cryptocurrency companies
- ● - Square Root Solutions - blockchain development
- ● - Wachsman - blockchain services
- ● - Bitcove.ie - Bitcoin exchange services
- ● - Piprate - blockchain based insurance data platform
- ● - AID:Tech - blockchain development
- ● - TradeIX - blockchain trading platform
- ● - ID-Pal - verification software
- ● - TicketChain - verification/services
- ● - Cryptotech - cryptocurrency services
- ● - WeSavvy - Digital Insurance
- ● - We.Trade - digital trade platform

Asset management — 1000+
- ● - Propertygate - portfolio management
- ● - MoneyMate - data services
- ● - FTI Treasury - treasury management
- ● - Certus - portfolio management
- ● - FundCalcs; FundRecs; FRS; Rockall Tech; Salmon Software; Centaur; Abbey Capital
- ● - Advent (SS&C)
- ● - Sungard

Payments & transactions — 1000+
- ● - CR2 - retail banking software
- ● - Realex - online payments
- ● - Nomos Software - software API's
- ● - Bitnet Technologies
- ● - 3V; Sentenial; WorldNet; Fexco; Acquirer Systems
- ● - Stripe
- ● - Google Wallet
- ● - Apple Pay

Mobile banking — 400+
- ● - Brite:Bill - billing
- ● - Acquirer Systems - testing and validation
- ● - CR2

Financial advisory — 400+
- ● - Intution - e-learning, knowledge management
- ● - OSG; Peracton
- ● - Nutmeg

P2p lending & crowdfunding — 100+
- ● - CurrencyFair - P2P currency exchange
- ● - LinkedFinance - crowdfunding platform
- ● - Fundit; iCrowdFund

Risk & compliance — 1000+
- ● - Fenergo - data management
- ● - Rockall Technologies - collateral management
- ● - AQMetrics - risk analysis and quantification
- ● - FINCAD - risk management
- ● - Sysnet - payment card compliance
- ● - Claim Vantage; Exaxe; Fineos; Phronesis; Sysnet; Mapflow; Zarion
- ● - IBM Algorithmics
- ● - Sungard

Security & privacy — 700+
- ● - Trustev- identity verification
- ● - VigiTrust - e-learning, compliance portals
- ● - Norkom - financial crime solutions
- ● - Sedicii
- ● - IBM
- ● - Symantec

FX — 200+
- ● - Monex FS - dynamic currency conversion
- ● - Barracuda FX - trading and risk managment software
- ● - CurencyFair
- ● - Misys
- ● - Calypso

Trading — 100+
- ● - Peraction - portfolio analytics
- ● - FundCalcs - fund admin, calculation verification
- ● - Corvil - networking technology
- ● - Misys
- ● - Calypso

● Examples of Blockchain and indigenous FinTech firms
● Examples of established Gobal Firms

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