

ADOPTING INNOVATIVE TECHNOLOGY

Find out how financial institutions can better engage and meet the needs of their customers through adopting practices that promote the push for more innovation in a digital world.



"There's no good idea
that cannot be
improved on."

- Michael Eisner



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**"Global investments
in the fintech
category
reached almost \$3
billion in 2013."
- Accenture**

¹Accenture Newsroom: London Is Benefitting from Fintech Investment Boom, According to Accenture Study." Accenture Newsroom: London

INTRODUCTION

The financial industry is becoming immersed with digital technology, and it is Fintech that has paved the way for such trends. Through innovative solutions such as crowdfunding and automated wealth management, Fintech entrepreneurs ensure they are a step ahead of the game by leveraging the technologies available to capture the market share from the legacy retail banking industry.

Regulatory burdens and budget legacy systems are the main reasons why such innovation fails to reach outside the banking industry. However, banks have a natural advantage over these financial institutions - their data. Even if their technology is not up to the same innovative standard as the leading Fintech entrepreneurs, leveraging their extensive source of data will allow them to remain competitive and entice partners to help bring the innovative solution into their operations.



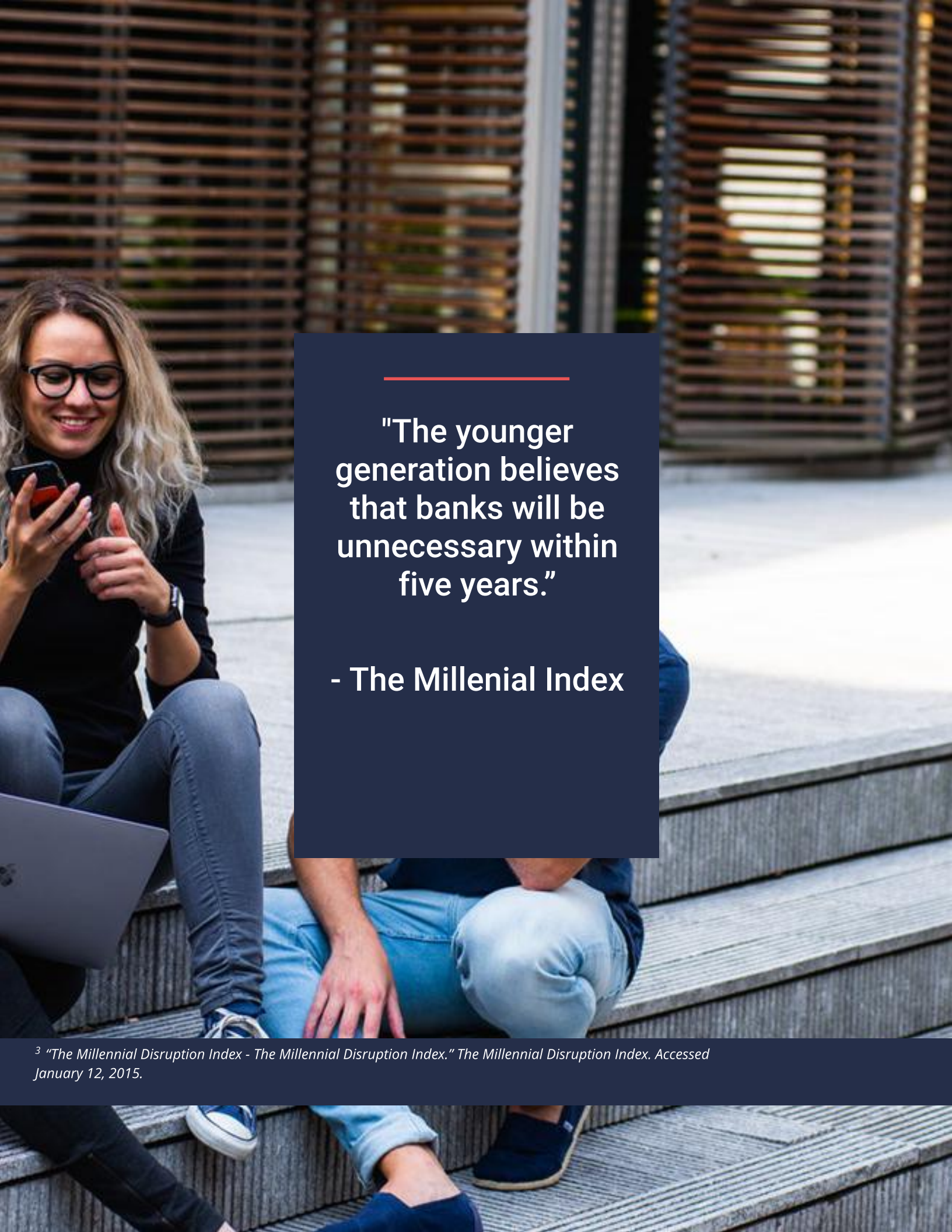
"In the first three quarters of 2014, over \$790MM in venture capital funds were invested in 50 financial services companies."

- Custom query

² "Custom Query." Custom Query. Accessed January 12, 2015.
<http://www.pwcmoneytree.com/HistoricTrends/CustomQueryHistoricTrend>.

POWER OF FINTECH

Fueled by the forces of Silicon Valley investors and other funding sources, a common trend for Fintech start-ups has been to attempt to completely re-scheme the financial services sector. However, the innovative ventures skewered by these Fintech startups goes far beyond investment returns. These Fintech start-ups have the power the leverage their innovative solutions and tap into an incredibly powerful technological stack. The problem that lies with this is open-source frameworks lower initial investment to build a new application, while cloud-based resources make it possible to construct prototypes of highly-scalable business models. Financial institutions will, therefore, find it harder to compete.




"The younger generation believes that banks will be unnecessary within five years."

- The Millennial Index

³ "The Millennial Disruption Index - The Millennial Disruption Index." *The Millennial Disruption Index*. Accessed January 12, 2015.

MILLENIALS CREATING PRESSURE

Not only do Fintech entrepreneurs benefit from their access to capital and technology, but they are also able to take advantage of the financial services industry which is eager for innovation. The millennial generation (the 1980s – 2000s), have been immersed in a world of advanced technology throughout their lives, and thus expect that financial institutions offer updated and high-end technology. The inability of financial institutions to keep up with the fast development of these growing fintech firms has worsened the perception of the banking industry, as they are seen to be lagging in comparison to these financial institutions.

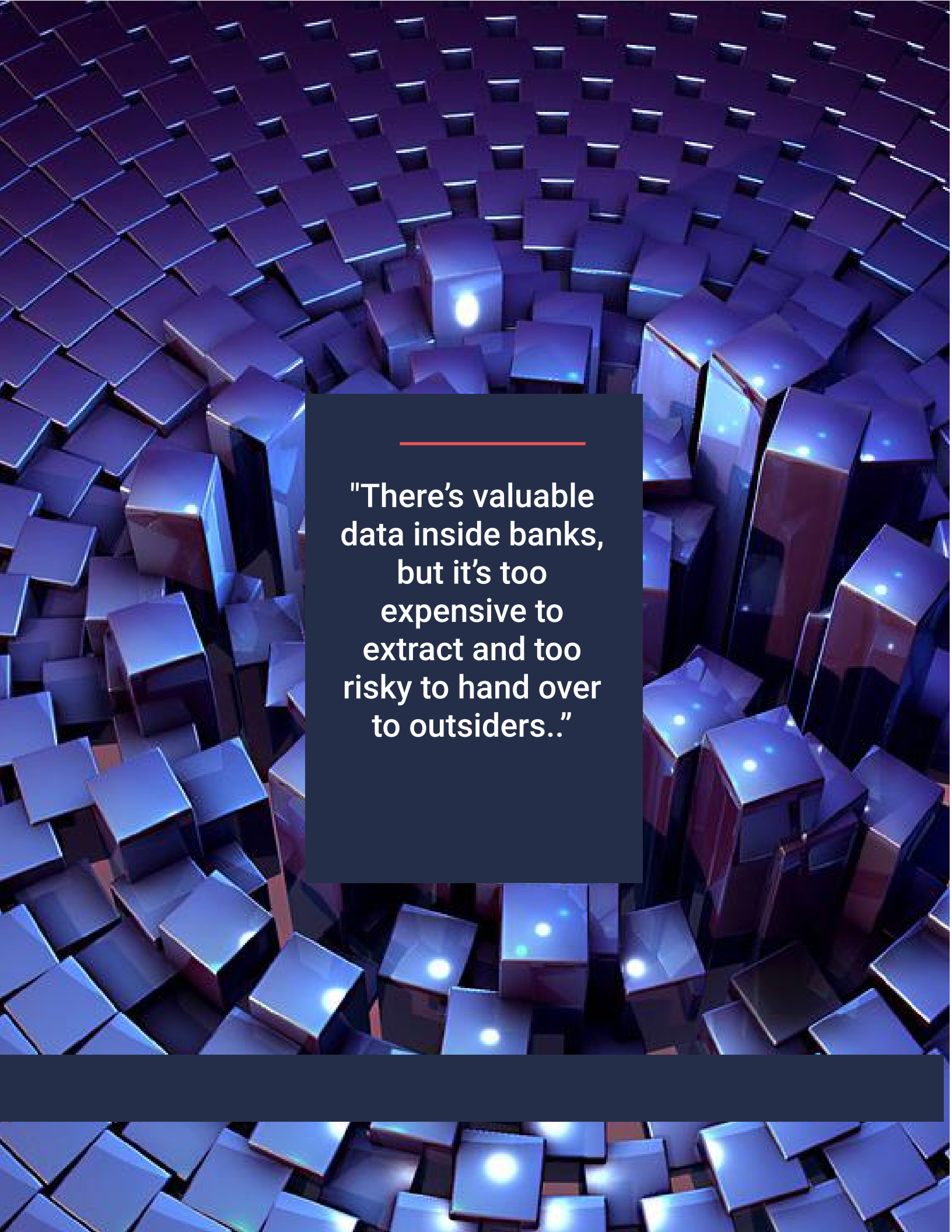


" [If] account verification
... process is frustrating,
time-consuming, or
exclusionary, customers
will ultimately go
elsewhere to conduct
their transactions."

- Evestnet

ISSUE #1 – PRESERVING THE BUDGET

On an annual basis, figures show that on average, the financial services industry spends over half-trillion dollars on Information Technology. However, of this figure, a large portion is accounted to the business-as-usual budget, which covers expenses such as operating costs, license fees and other overhead expenditure to meet capital requirements. The problem this presents is that IT departments must now become more efficient with their resources – doing more with less, even in a world where experimentation is becoming increasingly riskier and harder to justify.



"There's valuable data inside banks, but it's too expensive to extract and too risky to hand over to outsiders.."

ISSUE #2 – ABIDING WITH REGULATIONS

Regulatory requirements have become significantly tighter and stricter due to a recent financial crisis. The most significant concerns for financial institutions is that consumer liability and the exposure of their data to fraudulent activity. It is crucial that financial institutions monitor all activity and are conservative when a third party accesses the consumer account information.



"Financial institutions
... tried ...
build[ing] their own
solutions for
repurposing core
banking data found it
to be timeconsuming
and expensive

ISSUE #3 – COST OF CHANGE

Major financial institutions continue to use legacy systems, which has proven to be a burden. Financial institutions may find that there is friction to change their existing systems into a more innovative solution. A slight change in the core system will draw considerable cost because of the impact it has on the affected departments involved. Innovation comes with significant costs, and with larger financial institutions these costs are heavily amplified. Therefore, many of these major institutions will continually rely on outdated legacy systems to ensure low-cost and low-risk experimentation.



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