



**GETTING  
INNOVATION  
RIGHT**

## GETTING INNOVATION RIGHT

08

## WHETHER AN INVESTMENT BANK VIEWS FINANCIAL TECHNOLOGY (FINTECH) AS A DISRUPTOR OR ACCELERATOR, INNOVATION HAS ALWAYS BEEN THE LIFEBLOOD OF THE INDUSTRY.

Investment banks have a long and storied history of both product innovation (asset-backed securities, derivatives, structured products) as well as being early adopters of new technologies (data-center virtualization, in-memory computing, algorithmic trading). When done right, these innovations have brought important capabilities to clients and the capital markets. Now fintech offers similar opportunities as well, but only if banking leaders develop a holistic framework, which is built on a cohesive innovation architecture and one that relies on partnerships.

### THE RISE OF FINTECHS

At the very time when investment banks found their ability to innovate sharply curtailed, along came the growth of fintech, which posed both its own challenges

and opportunities. Global fintech financing has grown rapidly over the past five years; the share of investment directed at companies looking to compete against the financial services sector has remained stable at 62 percent (capital deployed in investment banks and asset management and wealth companies has been four percent and ten percent, respectively).<sup>1</sup>

Total investment in fintech startups from 2010 to 2015 is estimated at more than \$47 billion, with more than \$2.6 billion in capital markets fintechs. Investment in trading fintech was roughly at \$700 million.<sup>2</sup> Bank's strategies include venture investment (e.g. Santander InnoVentures invested in Ripple Lab<sup>3</sup>), acquiring startups (e.g. acquisition of Honest Dollar by Goldman Sachs<sup>4</sup>), and building innovations in-house (e.g. Citi's 'Citicoins').<sup>5</sup>

However banks' increasingly preferred way to engage with fintech is to collaborate via incubation programs and joint innovation (e.g. Fidor Bank has its own open platform for third-party developers<sup>6</sup>). An Accenture study of fintech within G20 firms highlights the shift from investment to collaboration<sup>7</sup> (see figure 1), and Jeff Gido, Goldman Sachs' Global Head of Fintech for Investment Banking, believes the industry is on the cusp of a "third wave" of innovation development, to be characterized by partnerships between established players with strong brands, and startups who can provide platform advances without the need for risky build-outs. "In a tougher fundraising environment, the go-it-alone strategy is difficult for many startups and it can be costly for traditional financial services to build the technologies on their own. That's why we're starting to see more of a two-way dialogue in this space."<sup>8</sup>

### UNDERSTANDING THE CURRENT CHALLENGE

We believe that there is an over rotation towards fintech as a focus unto itself. A potential risk is that companies may embark on "fintech tourism" and do not either meaningfully adopt fintech as a driver for benefit nor do they tackle the more fundamental problem of how to return to become innovators in this new world.

### QUICK FACTS

From 2010 to 2015

**\$47**  
BILLION

global investment  
in fintechs

**\$700**  
MILLION

in trading fintech alone

Source: Accenture analysis on CB Insights data

**Setting aside the over rotation point noted – there remain several inherent challenges for banks on fintech and innovation in general:**

- Restricted budgets due to discretionary spending on compliance and regulation
- The very proliferation of fintech startups to track and evaluate
- Getting fintech solutions to work in an enterprise model
- Legacy system interface challenges

- IB B takes a more laissez-faire approach. There is a standalone fintech fund that invests in companies that participate in its own contest. The operations group lacks a coherent prioritization or strategy for which industry utilities they will engage. IT believes that cloud computing is a fad and that they must keep a low profile in the industry to avoid regulatory scrutiny. All while they actually have become invisible to the market for new recruits. This lack of organization rarely yields good results. IB B will most likely have to play catch-up with the industry in the next two to five years as a result.

To better illustrate the issue – let’s look at two investment bank (IB) case examples:

- IB A has an integrated program whereby the chief digital officer sets a comprehensive strategy for innovation and change. Then the principle investment group, IT, the business division leads, HR, etc. all rally behind him/her and lay out a plan for action. The master plan includes the industry utilities they will lead (e.g., blockchain), participate in (e.g., know-your-customer) and avoid (e.g., collateral). This collaboration and cohesion will potentially allow IB A to grow sustainably and achieve positive business outcomes.

The point here is that innovation requires a coherent vision and an integrated master plan. In fact, we believe that investment banks need to seek to develop an innovation architecture. A sound fintech strategy is an important element of this – but only one element.

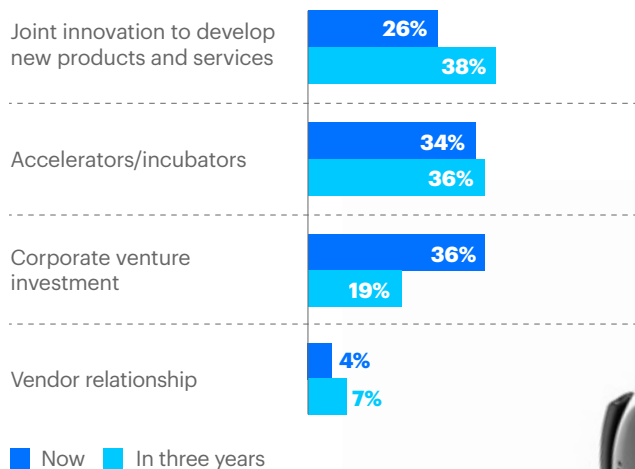
Fintech does represent tremendous potential for disruption and opportunity as has been exhaustively written. What is more critical is how an investment bank can incorporate the fintech strategy it wants to deploy into a broader vision of innovation. It should then develop a pragmatic and aligned approach to execute – and in particular in an environment where investment dollars and management time are increasingly scarce.

Jeff Gido, Global Head of FinTech at Goldman Sachs, illustrated the case for a coherent and joined up strategy in describing the future of fintech: “The third wave of development will be focused on partnerships between established players and fintech startups.”<sup>9</sup> Chris Myers, CEO of BodeTree, expressed similar views: “Wise companies learn how to take advantage of opportunities and work alongside the house. The best fintech companies will be the ones that figure out how to make banks better, not destroy them. The coming “third wave” will be the one that drives lasting change.”<sup>10</sup>

It follows that to capture the full opportunity of this change, a cohesive innovation architecture and fintech strategy is essential. Another potential oversight for companies is to view

**Figure 1: A shift from investment to collaboration**

Q: How do you currently collaborate, or plan to collaborate in the next three years, with startups/entrepreneurs on innovation?

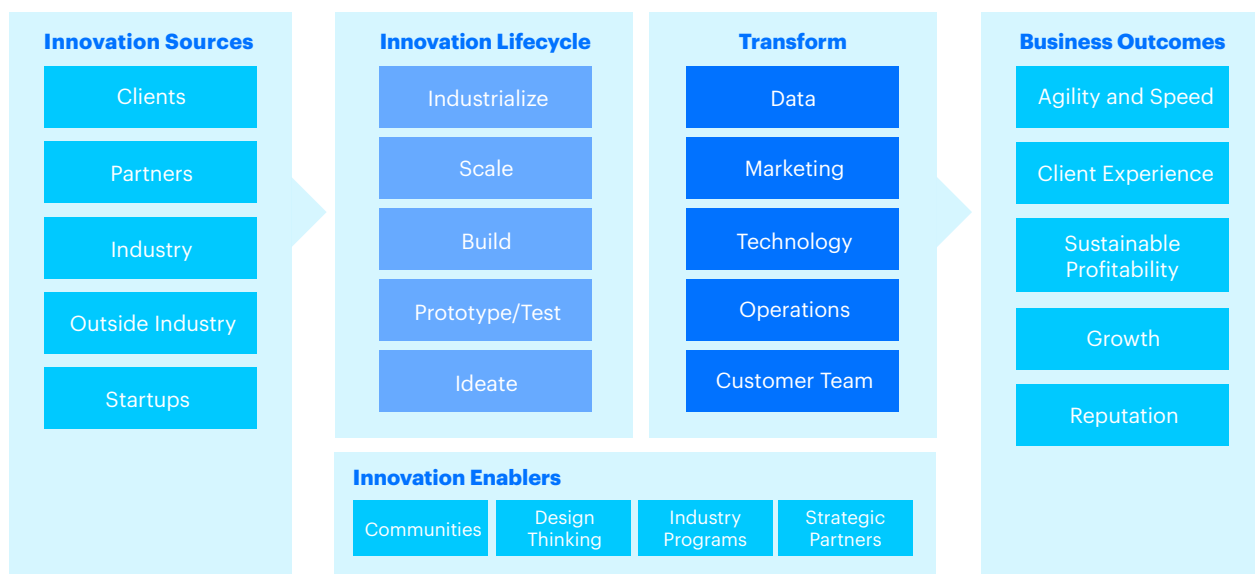


Base: Financial Institution respondents in G20 countries who currently collaborate with startups

Source: Accenture Research and Accenture Strategy, Harnessing the Power of Entrepreneurs G20 report



Figure 2: Innovation architecture framework



Source: Accenture

each fintech innovation in a vacuum. Where we have actually seen the most impact has been when various digital technologies are applied in combination. For example, the power of blockchain is greatly enhanced with the adoption of cloud technologies. We therefore believe the best practice for companies is to look at the array of available digital technologies being pursued by fintech entrepreneurs and also to understand how the introduction and adoption rates are accelerating.

It took about five years for the first major investment bank to publicly declare their move to public cloud from onset of the technology and two years for the Australian Securities Exchange (ASX) to move the industry from a dismissive view of blockchain to the launch of a fully integrated trading platform project.<sup>11</sup> Our view of the technologies to watch are outlined in figure 3.

It should be noted that technologies like deep learning, cognitive computing, augmented reality and virtual reality are also being pursued within intelligent automation and advanced analytics at several companies.

## A BLUEPRINT FOR INNOVATION

In order to avoid the “money pit” of potentially wasted investments, we believe it is important to implement a holistic framework for evaluating, developing and adopting fintech.

We have seen the early seeds of such a framework and from these observations and our own insights, we are proposing one innovation framework that may be of use to institutions.

As we enter this “third wave” of fintech, investment banks should consider these ideas:

### Develop a cohesive innovation architecture

Designate a chief digital officer (or an executive with similar authority) to set a comprehensive strategy and build a framework that relies on collaboration from all innovation sources.

### Make a sound fintech strategy an element of this architecture

Avoid becoming a fintech tourist. Instead of investing in the hottest, latest startups, consider a holistic adoption of fintech. Make it a driver of benefit and an inspiration for innovation across all departments.

### Combine various technologies and build partnerships across industries

Do not view each innovation in a vacuum. Applying various digital technologies in combination makes the most impact. Partnerships between established players and startups could help build platform advances while avoiding costly build-outs.

Figure 3: Key technology trends reshaping the industry

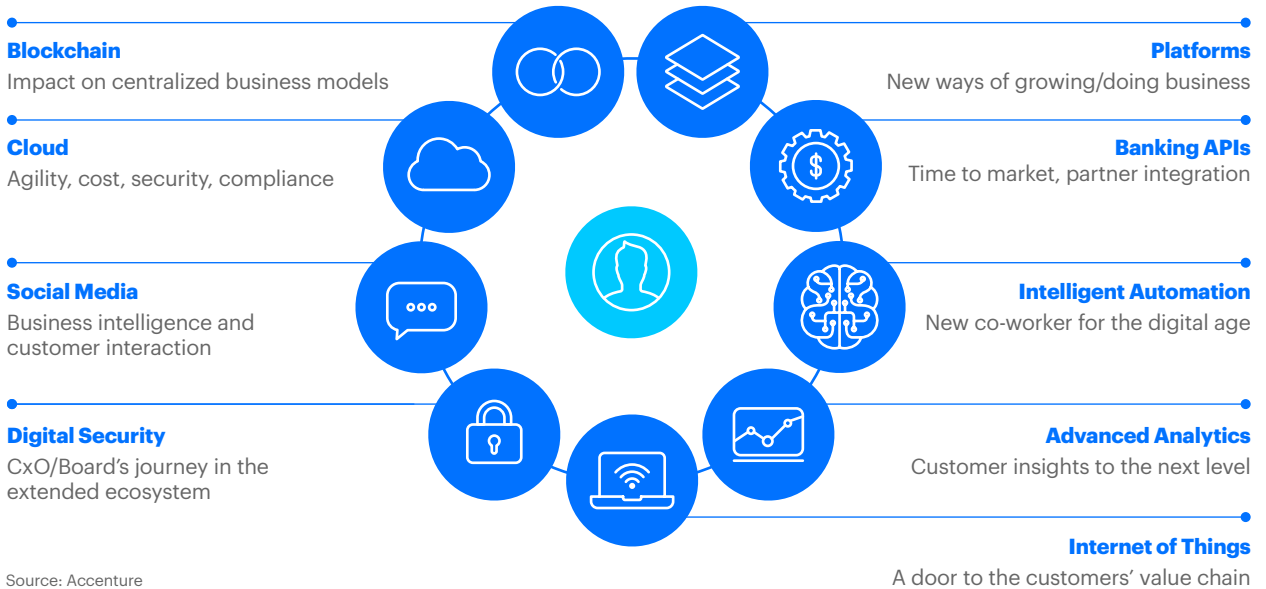
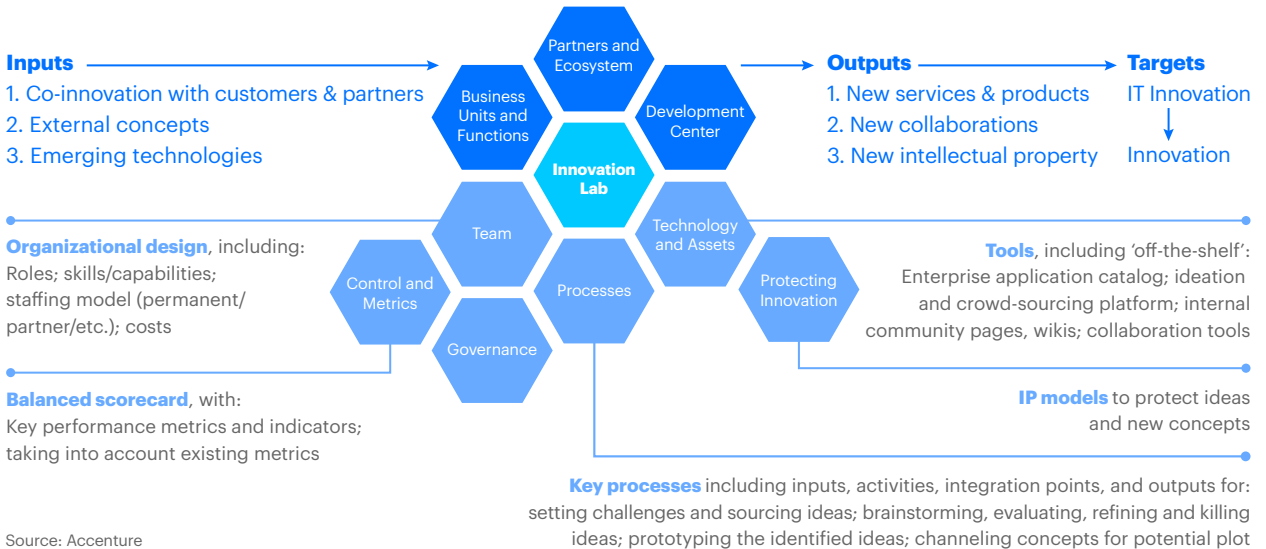


Figure 4: Innovation capability operating model



“ TO CAPTURE THE FULL OPPORTUNITY OF THIS CHANGE, A COHESIVE INNOVATION ARCHITECTURE AND FINTECH STRATEGY IS ESSENTIAL. ”

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## CONTACT US

To discuss any of the ideas presented in this paper, please contact:

### Bob Gach

New York

[robert.p.gach@accenture.com](mailto:robert.p.gach@accenture.com)



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