

# **MIND THE GAP: ADDRESSING CHALLENGES TO FINTECH ADOPTION**



# FINTECH **INNOVATION LAB**

# MIND THE GAP:

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## ADDRESSING CHALLENGES TO FINTECH ADOPTION

After nearly a decade of growth for the fintech sector, it has taken a foothold in financial services. The ability to quickly adopt external innovation is creating competitive advantages for financial services companies. Entrepreneurial fintechs decreasingly see themselves as competitors with large financial institutions, but rather as partners in a large, highly regulated marketplace. Financial institutions and entrepreneurs all stand to benefit if they get the interaction right. The fast pace of technology advancement only underscores the importance of getting fintech adoption right.

It is also apparent, however, that collaboration between financial institutions and fintechs remains a challenging and time-consuming process. Tactical hurdles are slowing smooth and efficient technology adoption by established financial service providers. The questions are: Why? What's occurring? And what can be done to increase alignment to realize mutual benefits?

TO LEARN THE ANSWERS, THE FINTECH INNOVATION LAB TOOK ADVANTAGE of its unique window into both the major financial companies who serve as Lab sponsors and the entrepreneurs who have gone through the mentoring program. We asked both to describe the technology

onboarding process from their own perspectives. We did this by surveying financial institutions and Lab alumni -- the entrepreneurs themselves -- on their views on each of four stages of technology adoption—prospecting, proof of concept, procurement and implementation. (See “About the Study” for background.)

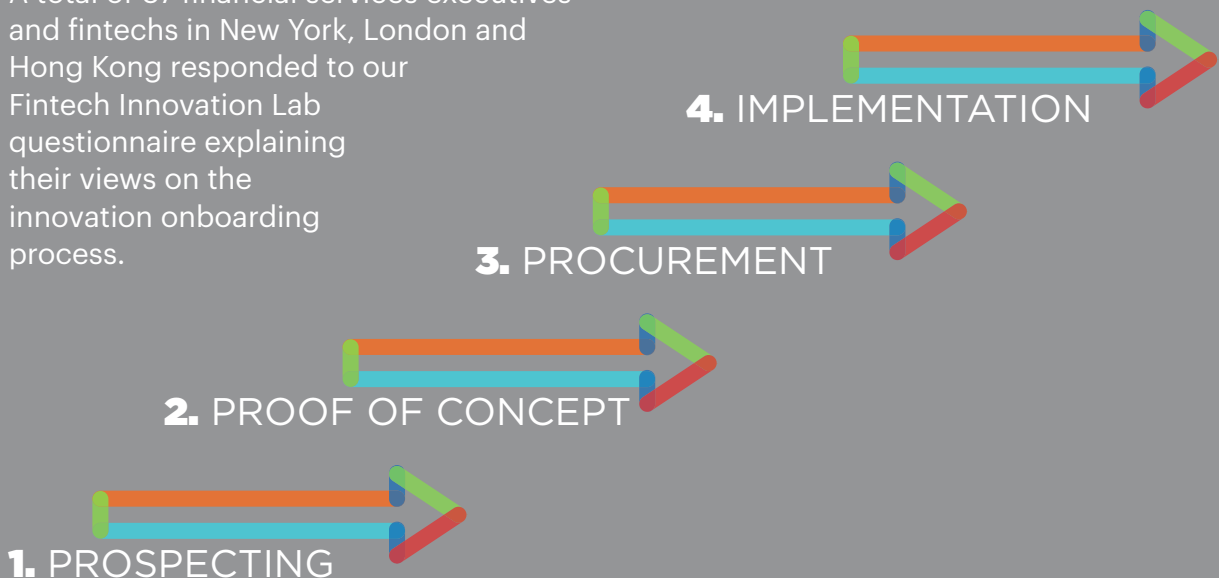
RESULTS OFTEN SHOW DIFFERING PERCEPTIONS OF WHAT'S OCCURRING in the technology onboarding process, and sometimes shared problems that aren't being actively addressed. Some of the 'disconnect' is natural. Financial institutions are often very large, regulated entities with long traditions, well developed internal resources, ongoing relationships with established vendors and requirements that prioritize security, risk management and process predictability. Entrepreneurs are typically smaller, with faster moving processes that use public development platforms like the cloud, which can present challenges for some large banks. They too are driven by innovation and the need to generate revenues. But time is much more critical for a small startup. Delays in going from concept to implementation carry greater consequences for a small fintech. Put differently, while financial companies and fintechs may share strategic interest in working together to optimize the use of technology within the industry, tactical coordination can be challenging.

THE SURVEY SHOWS BOTH SIDES CAN BENEFIT BY ADAPTING TO EACH OTHER.

Findings point toward solutions based on heightened understanding, aligned expectations and process synchronization sensitive to the pragmatic needs of both financial institution and fintech environments.

## ABOUT THE SURVEY

A total of 87 financial services executives and fintechs in New York, London and Hong Kong responded to our Fintech Innovation Lab questionnaire explaining their views on the innovation onboarding process.



The group comprised 52 Lab alumni, typically fintech CEOs, as well as 35 of the financial services CIOs and CTOs who serve as senior Lab sponsors. With 40 responses, New York accounted for nearly half the total.

Survey questions focused on each group's perceptions of what was occurring during the four phases of the technology

onboarding process: prospecting or marketing; proof of concept; procurement; and actual product implementation.

**Reflecting the mission of the Fintech Innovation Lab itself**, the goal of the study was to benefit financial services companies and fintech entrepreneurs alike to accelerate fintech adoption. The survey takes advantage of the Lab's trusted reputation as an open, collaborative environment and its access to a robust roster of sponsoring financial institutions and venture capital

# FINDINGS:

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## DIFFERING VIEWS

An overview of survey results shows greater transparency and clearer communications are needed in the fintech onboarding process. Overall, onboarding technology products at financial companies appears complex and under-resourced from the fintech perspective. And while financial institutions are moving to streamline internal processes, fintechs suggest they aren't as far along as they think they are. But fintechs also may not be as sophisticated as other large contractors that are accustomed to working with financial institutions, which means it is sometimes difficult for fintechs to move through the implementation process smoothly.

DISCONNECTS ON THE SPEED, SUCCESS AND BEST PRACTICES USED IN THE FINTECH ADOPTION PROCESS BECOME CLEAR by examining the survey responses. Results underscore the need to more closely align financial institutions and fintechs at each of the four stages, and also agree on actions to address shared problems.

## PROSPECTING

TIME IS PERCEIVED DIFFERENTLY. Over 62% of New York fintechs report that prospecting takes longer than four months.

Financial institutions perceive a much shorter time span, with 80%, saying the phase requires less than three months to complete.

THE TWO VANTAGE POINTS ESTIMATE DIFFERENT LEVELS OF PEOPLE INVOLVEMENT. Over three-fourths (78%) of New York financial institutions say they meet seven or more people at the fintech before deciding to move from prospecting to proof of concept. Fintechs report less staff involvement, with 58% saying only four to six of their people participate in the process.

BEST PRACTICES ARE UNDERUSED. For instance, a dedicated person to facilitate the relationship is one of the best practices financial institutions have in place to assure prospecting runs smoothly, according to 80% of New York fintechs. However, just over half (53%) of financial institutions have a point person assigned. Similarly, financial institutions acknowledge the need to streamline processes to more quickly reach the proof of concept stage, but over half still reported it takes more than three months to get through prospecting.

THE TWO GROUPS SEE DIFFERENT ISSUES hindering smooth advancement from prospecting to proof of concept. Over

60% of financial institutions cite regulatory, compliance or security issues as major stumbling blocks. However, less than a fifth of Fintech Innovation Lab alumni perceive a problem in those areas. Instead, over a third of fintechs report facing hurdles at financial companies related to lack of budget, competition with an internally developed product, perceived risk that the fintech product would displace an internal team or sunk costs in legacy technology.

## PROOF OF CONCEPT

**REASONS DIVERGE ON WHY PRODUCTS STALL** in the proof of concept phase. New York financial institutions emphasize compliance and security issues as the top cause. Fintechs stress lack of dedicated employees or funding resources, and lack of alignment between use cases and product roadmaps.

**FINANCIAL INSTITUTIONS AND FINTECHS ESTIMATE DIFFERENT RATES** of products making it from proof of concept to live implementation. Nearly all financial institutions in the global survey, 90%, say less than a quarter of products in the proof of concept stage eventually reach implementation. Among Fintech Innovation Lab alumni, 40% report half or greater of their products convert to implementation. One reason for the discrepancy is that intensive mentoring provided in the Fintech Innovation Lab enables our surveyed alumni to achieve a greater rate of success than financial institutions typically experience among the broader universe of fintechs.

**SIGNOFFS AND APPROVALS DOMINATE THE ISSUES THAT NEW YORK FINANCIAL INSTITUTIONS CITE AS**

roadblocks to reaching the proof of concept process. However, for fintechs poor alignment between use cases and product roadmaps and lack of employee or funding resources lead the list of reasons product ideas decline to move forward from prospecting, illustrating poor communications.

**PERCEPTIONS DIFFER ON PROCEDURES IMPLEMENTED TO SIMPLIFY THE PROOF** of concept phase. More than two-thirds of financial institutions (68%) cite at least one streamlining step in place. But just over a third of fintechs (38%) say they've worked with financial institutions that have streamlined the process. Although financial institutions have made efforts to improve their processes, fintechs still perceive them as being cumbersome.

## PROCUREMENT

**BOTH GROUPS AGREE PROCUREMENT TAKES TOO LONG.** At least 60% of New York financial institutions and fintechs reported the process lasts four to six months or longer.

**VENDOR APPROVAL AND PROCUREMENT PROCESSES ARE RATED** as the two greatest challenges to moving from procurement to implementation (at 78% and 73%, respectively), according to New York fintechs.

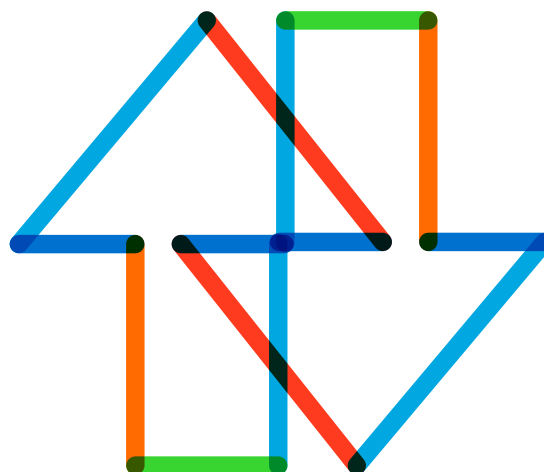
**SHARED FOCUS ON REGULATORY ISSUES CAN BE IMPROVED.** Financial companies are working more actively with regulators (60%) than fintechs (17%) to address regulatory concerns. And, although over 60% of fintechs say they are consulting with financial companies on regulatory issues,

38% report that they are not currently addressing regulatory issues at all.

## IMPLEMENTATION

SECURITY AND COMPLIANCE AND VENDOR APPROVAL PROCESSES slow down implementation, half or more financial institutions and fintechs in New York agree. Nearly as many in both groups also report that lack of time from staff at financial institutions delays the final step.

ADEQUATE FINANCIAL INSTITUTION RESOURCES ARE CRITICAL to effectively move implementation ahead, a consensus of all agreed globally.



## RECOMMENDATIONS:

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### ENGINEERING FOR MUTUAL BENEFIT

The challenges uncovered in the survey, supported by the experience of the Fintech Innovation Lab, center on the need for greater, more closely aligned communications as well as action on shared concerns.

Overall, there appears to be a lack of mutual understanding and clear communications on why a particular technology is not ultimately purchased. While financial services companies are investing significant energy into labs and accelerators to solicit new ideas, less attention and resources seem to be

focused on the complex process of integrating new technologies. Fintechs, for their part, can help smooth the process by increasing their focus on security, regulatory and compliance requirements.

Both sides agree that more can be done to accelerate proof of concept and implementation. But, while financial institutions are already making progress in their streamlining efforts, they see themselves more advanced than fintechs are actually experiencing. End of day, the duration of the process is a more immediate concern to the smaller, entrepreneurial fintechs.

A FEW PRAGMATIC STEPS CAN GO A LONG way toward improving technology onboarding for the benefit of all.

#### STRUCTURE THE PROCESS AND PEOPLE

Create a map to chart the process and designate a leader for each phase. As financial companies diversify technology buying by bringing entrepreneurs into the mix, all will benefit by developing flow charts that help to simplify and rationalize the process. Maps should consider the steps required and their most efficient sequence—handling compliance, regulatory and security in parallel, for instance, rather than one after the other. Critical support staff (such as operations and compliance) should also be involved as soon as an idea progresses into proof of concept. Structurally, appointing champions to guide each fintech through a centralized review process will produce better outcomes.

#### STREAMLINE AND SIMPLIFY CONCEPT DECISION-MAKING

Practical steps can speed the process of getting to a “go” or “no go” decision on proof of concept. This will greatly help fintech entrepreneurs for whom lost time means lost money and other opportunities. Actions should include: publication and direct access to nondisclosure and master services agreements and the basic requirements for security, data and other areas fintechs need to understand.

#### CREATE SANDBOXES TO FACILITATE PROOF OF CONCEPTS

Sandboxes, safe work areas to test concepts using simulated feeds and masked data in a sequestered environment, are already increasing speed and efficiency in the financial institutions that have provided them to fintechs. Sandboxes are proving they’re worth it by avoiding security, compliance

and risk management roadblocks in the proof of concept phase. They deserve consideration by the banks, insurers, asset managers and others who aren’t already using them.

#### PRIORITIZE REGULAR, TIMELY TWO-WAY COMMUNICATIONS

The survey’s clearest finding is that financial institutions and fintechs perceive their working worlds differently for natural reasons based on size, regulation, bureaucracy, cash flows and other factors. The stakes of delay at a fintech, for instance, can be critical to business viability. Prompt rejection of an idea by a financial institution can prove kinder and more productive than a series of “maybe’s” leading to a dead end. Building in good communications channels and awareness of each other’s needs will drive the fintech-financial institution relationship toward greater success.



# ABOUT:

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## ABOUT THE FINTECH INNOVATION LAB

Founded in 2010 by Accenture and the Partnership Fund for New York City, the FinTech Innovation Lab is a mentorship and accelerator program for leading financial technology ventures. Accenture launched additional labs in London in 2012, and in Hong Kong and Dublin in 2014. The program in New York is supported by 40 of the world's leading financial institutions. Nearly 135 ventures have participated in the Labs, with New York graduates raising more than \$500 million in financing after the program.

## ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world's largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 435,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at [www.accenture.com](http://www.accenture.com).

## ABOUT THE PARTNERSHIP FUND FOR NEW YORK CITY

The Partnership Fund for New York City is the \$150 million investment arm of the Partnership for New York City, New York's leading business organization. The Fund's mission is to engage the City's business leaders to identify and support promising NYC-based entrepreneurs in both the for-profit and non-profit sectors to create jobs, spur new business and expand opportunities for New Yorkers to participate in the City's economy. The Fund is governed by a Board of Directors co-chaired by Charles "Chip" Kaye, co-chief executive officer of Warburg Pincus, and Tarek Sherif, Chairman and CEO of Medidata. Maria Gotsch serves as President and CEO of the Fund. More information about the Fund can be found at [www.pfnyc.org](http://www.pfnyc.org).

## FOR MORE INFORMATION ON FINTECH INNOVATION LAB:

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