Digital Transformation in Financial Services

The Age of FinTech

FinTech, within the broader context of financial innovation, is disrupting the financial services industry in every aspect. However, its ability to thrive and scale, especially across borders, faces numerous challenges. Professor Anne-Laure Mention, Director of the Global Business Innovation Enabling Capability Platform at RMIT University, Melbourne, Australia, has made a significant contribution to our understanding of FinTech and Open Innovation, through the trajectory of her work in the last decade, and most recently in her paper “The Age of FinTech”. In this paper, she identifies the building blocks required for a successful future of the FinTech industry.

Financial innovation presents a significant opportunity that goes beyond its impact on financial services firms; the entire economy can benefit. It “embraces changes in the offerings of banks, insurance companies, investment funds and other financial service firms, as well as modifications to internal structures and processes, managerial practices, new ways of interacting with customers and distribution channels” (Mention and Torkkeli, 2012). It’s the process of developing new financial products and services, new ways of communicating with customers, and new ways of working. Done well, the process of financial innovation can bring significant benefits to our broader society (Mention, 2012). Within this context, FinTech has emerged and evolved as a cornerstone of financial innovation.

Prof Anne-Laure Mention, Director of the Global Business Innovation Enabling Capability Platform at RMIT University, Melbourne, Australia, is a prolific contributor to Open Innovation literature, with a keen research interest in FinTech. She leads the OpenInnoTrain project, which is bringing together Open Innovation, University-Industry Cooperation, and Research Translation. Prof Mention has extended our understanding of the role of FinTech in society through her extensive research contributions.

**FINTECH**

FinTech is an umbrella term used to describe innovative technology-enabled financial services that could result in new business models, applications, processes or products with material impact on institutions and provisions of financial services. FinTech is not just the territory of startups; it also forces larger, incumbent financial services businesses to stay competitive and innovative if they want to remain relevant.

FinTechs are creating new customer-centric ways of accessing and delivering financial services, from convenient ways to make payments to investing money with robo-advice and creating a personalised budget with the help of an app.

In her 2019 paper, “The Future of FinTech”, Prof Mention highlights how FinTechs are disrupting the industry with their faster, cheaper, and more attractive service models that are attracting interest from regulators.

Dr Dimitrios Salampanis, Swinburne Business School; Swinburne University of Technology, and Prof Mention connect FinTech with sustainable development in their 2018 paper “FinTech: Harnessing innovation for financial inclusion”. They suggest that FinTech can increase financial inclusion by opening financial services to traditionally underserved sections of society, which in turn will contribute to the acceleration of inclusive economic growth.

**THE AGE OF FINTECH**

In her paper “The Age of FinTech” (2020), Prof Mention puts forward the case for identifying the component parts of the FinTech industry and analysing its future challenges and opportunities.

FinTechs are bringing a start-up mentality to corporates while also increasing competition, customer focus, and collaboration. These trends bring clear benefits to customers in the form of more competitive pricing, as well as more innovative and convenient services for managing their finances.

The regulatory environment has encouraged increased competition through open banking regulations. These regulations mean banks must enable their customers to share their financial information with other authorised providers, such as budgeting apps or other banks. Prof Mention notes that “regulatory regimes associated with open banking are shaping the future of FinTech by establishing banking-as-a-platform and marketplace banking.”

**THE CHALLENGES FOR FINTECH**

While bringing significant benefits to the industry and customers, FinTechs also face numerous challenges in establishing their businesses and scaling.

The first challenge they face is how to present investors and other stakeholders with a clear view of their value proposition, especially if their offer is somewhat intangible in the existing market, and unproven with specific customer demographics. This difficulty presents challenges when raising finance from venture capitalists and angel investors. These stakeholders will want to see clear evidence that FinTech brings something new, has the potential to scale and has mitigated its risks as far as possible. FinTechs may need a sizeable investment to get started, to prove their business model and secure protection in the form of intellectual property rights.

The available pool of specialist talent can also limit a FinTech’s progress.

FinTechs face a significant barrier to building relationships and trust with customers who are wedded to dealing with traditional financial services companies. FinTechs need to battle myths that their innovation comes at a cost to security and the appropriate handling of data. Salampanis, Mention and Prof Torkkeli of Lappeenranta University of Technology, Finland (2014) provide an extensive exploration of trust in the financial services industry and its implications for financial innovation. They conclude that trust is a critical starting point to enable open innovation, meaning collaboration with those outside of the organisation, to occur and succeed.

Finally, to thrive, FinTechs require a more supportive regulatory framework that is consistent across borders, so that they can scale internationally with less friction.

**THE FUTURE OF FINTECH**

In “The Age of FinTech”, Prof Mention created a concept map for the future of FinTech, which shows the interconnections between the five critical building blocks.

The first building block is coordination, which is critical to the future success of FinTech. Without productive partnerships to gain expertise and share resources, the chance of a FinTech failing increases significantly. Prof Mention states: “There is a need to coordinate research, policy and
regulation in FS (financial services) at a global level to enable FinTech to grow, scale-up and internationalize. For FinTechs with the ambition and ability to scale internationally, there are numerous benefits in strategic collaboration across international borders to better meet the pain points of their customers.

The second block is the awareness and expertise that will enable FinTechs to meet regulatory requirements. Prof Mention suggests that research and policy efforts to develop compliance toolkits would be a valuable resource. At the same time, FinTechs have valuable customer insights that will benefit regulators, so communications should flow both ways.

Building block three is the economy and sustainability, which recognises that FinTechs have to deal with many cross-country regulatory authorities and jurisdictions, which is challenging to navigate. The path for FinTechs would become smoother if authorities could harmonise compliance frameworks across borders. Trust is a critical component to achieve this harmonisation and encourage an open and collaborative environment. Newer FinTechs and more established businesses can overcome the friction between them that is caused by this lack of trust, if they work on developing stronger relationships that enable them to overcome misconceptions about cybersecurity and innovation. Prof Mention recommends that individual regions should encourage safe experimentation with untested innovations, alongside tighter rules on an international level supported by higher levels of supervision.

The fourth challenge comes in the form of internationalisation; 95% of FinTechs and jurisdictions, which is challenging to navigate. The path for FinTechs would become smoother if authorities could harmonise compliance frameworks across borders. Trust is a critical component to achieve this harmonisation and encourage an open and collaborative environment. Newer FinTechs and more established businesses can overcome the friction between them that is caused by this lack of trust, if they work on developing stronger relationships that enable them to overcome misconceptions about cybersecurity and innovation. Prof Mention recommends that individual regions should encourage safe experimentation with untested innovations, alongside tighter rules on an international level supported by higher levels of supervision.

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