

Innovation in Fintech

When it comes to fintech, what is innovation?



Innovation is one of those buzzwords that gets regularly used, often without being properly defined. In this Jersey Finance Put Simply we explore the theme of innovation, how it can happen, why innovation should continue, and how to be more innovative.

Search the internet on the subject of innovation and you will find numerous articles and interviews with multiple definitions and comments on the subject.

While you can definitely pick out some snappy catchphrases such as ‘fail fast’ or ‘learn from your mistakes’ which can shape how innovation happens, there certainly isn’t a standard definition. There are however some common themes like having an idea which addresses a real challenge or problem and provides some real value to the customer or the company, building up that idea, and executing on it.

While it may be hard to define innovation, it is much easier to think of examples of things which were and are truly innovative, for example, the internet, email, mobile phones, and GPS are innovations. When combined, they have transformed the way in which financial services firms can enhance their products and services via new solutions such as online banking and apps.

In most cases, innovation has addressed a problem, made existing things easier, or introduced whole new opportunities that have never been really contemplated or possible before.

Innovation is also sometimes seen as the domain of technology start-ups or people working in their bedrooms or garages working into the night on the next idea that will 'change the world'. While that is often true, organisations big and small innovate too. You may be reading this article on a mobile phone which is likely to be the result of some pretty spectacular innovation in a number of bigger corporates, and maybe smaller companies too. You are probably reading it wirelessly and the network you are reading it on will certainly have been the subject of innovation. And often with those really big innovations, companies will have collaborated to make it happen.

Internal innovation and disruption

The classic book on the subject '[The Innovator's Dilemma](#)' points out that it is often the bigger companies which identify new opportunities and can adapt themselves organisationally and operationally. Common examples of this internal innovation are banks setting up challenger sub-banks, or airlines setting up low-cost subsidiaries. Some firms have established innovation labs or hubs which are dedicated teams with a focus on creating new ideas, solutions, or ways of working. Typically the teams have the structure and independence from their parent company to think and act like a start-up while benefiting from company-wide support and guidance.

Successful innovations can then be exported into the larger company, however, what they often struggle with is realising value or financial return from the investment because they apply the innovations to existing customers or networks that may be unprepared or unable to change because of the different ways the companies have operated.

Often a smaller, nimbler, start-up appears without the historical challenges of technology and process. Through innovating in these areas they can more easily make a better return by using new technologies to lower costs, complete processes faster, and improve client satisfaction. So bigger organisations can definitely innovate too, but it is often harder for them to do so, hence the often held view that the bigger companies cannot innovate.

What is innovation in financial services?

Financial services firms are generally defined by the products they offer and the ways in which they serve their clients. As new technologies emerge, firms have innovated in both of these areas, examples include the ATM, electronic payments, telephone banking, internet banking, and more recently apps.

Today, most innovation in financial services is categorised under the term fintech. Common perception is a start-up or innovative firm but in reality, big name technology companies have been delivering innovative software that helps the customer proposition or generate efficiencies for decades. Here we define fintech as:

- Technologies used and applied within the finance industry
- Something which enables a customer proposition or creates efficiencies within finance organisations
- Both start-ups and established financial and technology companies
- Subsets such as RegTech, WealthTech and InsureTech focus on specific areas of industry

The emergence of the internet in the 1990's created new ways for clients of financial services to interact with their provider, however at the time the technology was limited and there was not a significant client demand. The emergence of smart phones and apps in 2007 changed the way most people use technology across all walks of life and this kickstarted the emergence of fintech.

At a similar time, in response to the 2008 financial crisis, a number of regulators introduced new consumer protection regulation and sought to force competition by opening up markets to new entrants. It is these two factors which created the fintech boom we see today.

So, if innovation is hard, why bother to do it at all?

If something has worked for many years, why bother changing? Well, there will be some things where that is the case; but probably not many. It is difficult to think of many things which haven't in some way been touched by innovation and

technological innovation at that; reading papers, catching the bus, buying milk; they've all been changed by this thing we can't really define. And therefore, sitting back and watching others innovate around you with your customers isn't really an option.

How can you become more innovative?

Within your own organisation you may be aware of a process which needs improving, and perhaps have read about some innovation which may help. Or you may have thought of a whole new service line and might be interested in shaping an existing technology to make that happen. Often to do that requires a huge amount of time and effort, so you might be prepared to collaborate with a competitor to develop common standards, rules, or parameters that can enable the new opportunity, and then eventually compete with the competitor around how each of your firms execute it.

Most of all, it is absolutely vital that you take the time to really understand the problem that you are trying to solve. There are lots of examples of technologies which were certainly great innovations, but which didn't really solve a problem.

Can you articulate the problem you are trying to solve into a short problem statement that anyone can understand? This is a key skill and often overlooked – try it out, think of a problem and write a short statement that presents the problem in a way that lets the development team really understand all aspects of the opportunity but without being led towards an existing solution.

Finally, it needs to be the right type of problem. There are lots of problems in the world, but the really successful innovations are the ones which are simple to understand, which solve high value problems, and are scalable – they're the ones which really can change the world!

Where can I find more information?

For more information on innovation and fintech visit the dedicated [Jersey Finance](#) and [Digital Jersey](#) fintech pages.