

Reinventing Financial Services through Innovation

This article is an extract of the CH&Co.'s Fintank yearly publication.

This article is an extract of our CH&Co. Fintank yearly publication on Innovation for Financial Services. The 2018 edition addresses ways for incumbents to collaborate with Fintechs, Insurtechs and Regtechs through technologies driving the industry's digital transformation.

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The logo for CH & Co. is located in the bottom right corner of the page. It consists of the letters 'CH' in a large, white, serif font, with '& Co.' in a smaller, white, serif font directly below it. The logo is set against a solid orange square background.

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Reinventing Financial Services through Innovation

Over the past decade, the term innovation has become ubiquitous in business conversations. The Financial Services industry in particular has seen an explosion in the number of innovation labs, teams, research, and investments.

These long-term commitments to incorporate innovation into an organization's strategy and culture have become key objectives for most banks, as the proportion of such financial institutions with innovation strategies have grown from 37% in 2009 to 74% in 2016¹.

Many banking and insurance executives find it difficult to synthesize all this burgeoning information into concrete action plans that will benefit their organizations in the long run.

1. Efma-infosys Finacle, Innovation in retail banking, October 2016

Innovation is a lever to redesign a bank or insurance company, through all dimensions, not only products.

HOW CAN INNOVATION BE DRIVEN IN A FINANCIAL INSTITUTION?

Innovation is more "change" than "disruption"

The word innovation comes from the Latin word "innovatio", which means "renewal" or "change". Innovation can be incremental (limited change) or transformational (significant change).

However, “disruptive innovation” has a very specific meaning as coined by C. Christensen: it is a “process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors”.

In this sense, to be disruptive, an innovative idea has to truly shake-up the foundations of a market. However, this doesn’t have to be systematically supported by new technology.

Innovation is not only about technology

If you take a look at Airbnb and Netflix, they were able to leverage existing technology to radically change their industries by adopting innovative business models.

Other examples of innovative business models include:

- Distinctive customer engagement
- New channels
- Enhanced services
- Product performance
- Superior processes
- New profit models

Why are FinTechs a perfect illustration of innovation not strictly driven by technology?

Whatever the technology that is leveraged, FinTech companies have developed new business models to fill a gap and adapt quickly to a market that is constantly changing.

FinTechs follow the major trends below, impacting traditional business models:

	Major Trends	Impact on Business Models	Examples of FinTech	Examples of InsurTech
Customer expectations	Create more engaging (speed, simplicity) and seamless experience for connected users (anything, anywhere, anytime)	Differentiation on Experience design	 TransferWise  SIMPLE	 metromile
	Customize services according to customer needs, with ability to turn cover on and off (personalization, just-in-time, transparency of trade-offs)	On demand Banking / Insurance	 monzo  monese	 Slice SURE.  troov
Digitalization	Extract insights from massive amounts of structured & unstructured information with advanced data science (NLP, deep learning, cognitive computing)	Roboadvice, Smart Trading, Dynamic Risk detection, Smart Assistants, RPA	 Kasisto  feedzai	 Airware  NeuroSky Body and Mind. Quantified.  NAUTO
Platformification	Leverage the power of platforms in open environments to create new ecosystems and new partnership models	Banking / Insurance as a Service , Marketplace Lending	 fidor BANK  solarisBank	 INSTANDA™
Decentralization	Leverage new trusted infrastructures (such as but not limited to Blockchain technology) to perform direct transactions without central authorities or intermediaries	Social / P2P Insurance, P2P payments, Crowd-funding, Social trading	 eTORO  venmo	 GUEVARA  Lemonade
Financial inclusion	Deliver basic insurance services to underserved groups	Micro Payments, Micro Lending, Micro Insurance	 first access  M-PESA	 WorldCover  BIMA

Innovation is not only about “creativity” and “idea generation”

To further demystify the concept of innovation, it is paramount to understand that it is not only about creativity and idea generation.

At its core, innovation is a discipline that can be managed through an overarching system that relies on corporate pillars:

- Strategy (Mission statement, Guiding principles, Portfolio (mix))
- Operations (Supply (ideas), Experimentation process, Scaling & production)
- Organization & Governance (Teams / RACI, Decision process, Metrics)
- Sourcing & Culture (Talent hiring and training, Incentives, Partnerships)

Innovation is a lever to redesign a bank or insurance company, through all dimensions, not only products.

<p>Customer Experience</p> <p>Omni channel Empowered Proactive Personalised, Social</p> 	<p>Marketing & Distribution</p> <p>Data analysis Mobility Augmented intelligence</p> 	<p>Risk Management</p> <p>Modelling Scoring and contextualised control Disintermediation</p> 
 <p>Products and Services</p> <p>Innovation Use personalisation Co-creation</p>	 <p>Back Office</p> <p>Simplification Reactivity Virtualisation Industrialisation</p>	 <p>Management</p> <p>Vision Efficiency Multi-level Real-time steering Partnership</p>

INNOVATION BEST PRACTICES IN FINANCIAL SERVICES: PROGRAMS & PROCESSES

Innovation Program: the must-do to kick off change management

It is key to define an innovation strategy based on structured, methodological framework through a concrete long-term Innovation Program; this entails putting a mechanism in place to generate and implement innovative solutions, according to the organization’s vision and strategy, ranging from raising awareness to making it happen.

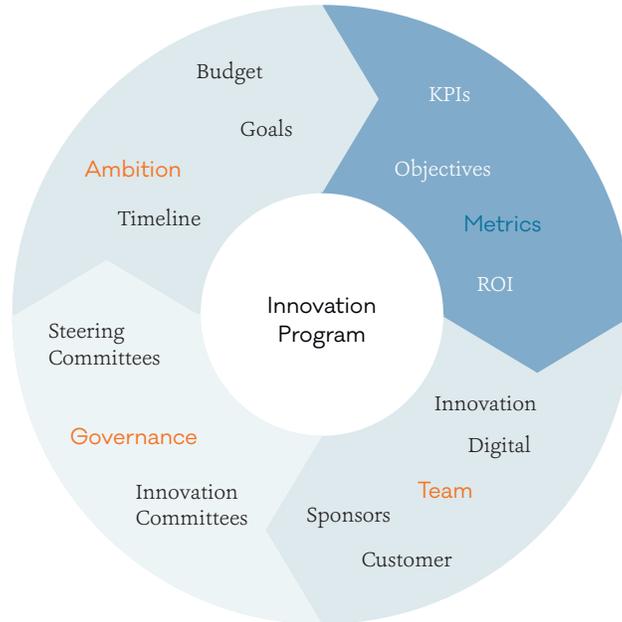
The Innovation Program must adopt a systematic approach to building strong innovation culture. Skills, tools, metrics, processes, platforms, incentives, roles, and values all have to come together in one race-winning innovation engine.

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Innovation must be embedded in the company's culture as an everyday process

Innovation must come for a reason. If you are looking to foster innovation you will have to formalize **where** you want to go by setting goals, a timeline and a budget

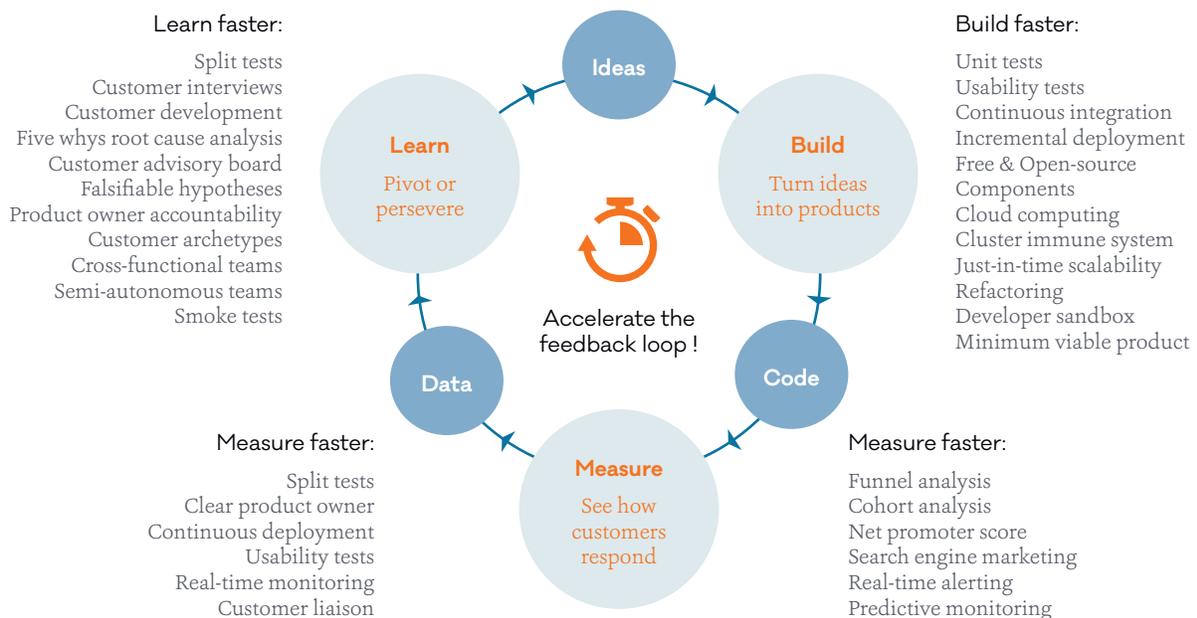
To make sure your objectives are achieved on time, a structured governance will have to be set-up to present the **key achievements** and the next steps



Once you have your goals you have to decline these into **SMART objectives** (specific, measurable, achievable, realistic, timed). **Metrics** can help to measure the performance of your Ambition

Innovation can be diffused within the organization only if **key people** push for it. You will therefore need a strong team of leaders and champions

Innovation must truly become an everyday process for staff, based on the Learn, Build, Measure tryptic:



To assist our clients, CH&Co. has developed a methodology based on our experience working with innovation teams around the world to structure the following innovation processes:

- Identifying innovation opportunities through external and internal sources
- Selecting the ones with the best fit for the organization, with several layers of filters to narrow the sea of opportunities in a logical and systematic way
- Initiating a pilot project to validate the solution feasibility and risks control

Innovation goals become reality only when leaders develop a clear vision, formalize their strategy and communicate it across the organization.

Our beliefs are based on our observations of innovative players	
<p>1 Innovation focused on use and client relationships is a differentiating cornerstone</p>	<ul style="list-style-type: none"> Much of current innovation is focused on technology or products. Nevertheless, a lot of developments can be rapidly replicated. Innovation related to client relationships (process simplification, new channel development, use adaptation) that is often neglected actually presents strong added value, but requires management and executives' awareness.
<p>2 Innovation must be encouraged through empirical approach rather than theoretical monitoring</p>	<ul style="list-style-type: none"> Many companies are organizing technological and commercial monitoring, and investing in long R&D, which is potentially not aligned with their clients' expectations. Our approach inspired by the Lean Start Up methodology fosters a pragmatic focus: identification of strategic innovation axis and tests through PoC (Proof of Concept) in direct contacts with our clients.
<p>3 An efficient innovation model entails spotting market trends and being able to replicate them into an agile model</p>	<ul style="list-style-type: none"> Innovation can come from big Tech players (ex: GAFA), from traditional players within the financial industry or organisations dedicated to R&D. However, an alternative innovative and organisational model exists, through observation of the latest market trends replicated with fast Time-to-Market model (examples include Samsung or Rocket Internet).

FINAL WORD

Outlining the concept of innovation, the articles in this booklet will provide readers with an overview of the latest trends currently driving the market, with concrete examples of their applications in the Financial Services industry.

Acknowledgements & Contacts

CH&Co. Digital Expertise

We are deeply involved in growing the global FinTech community and use our knowledge to enhance our public Fintank.net database. We cofounded FinTech hubs, such as FinFusion in Montreal or Finance Innovation in Paris, and regularly co-organize FinTech meetups in New York, Singapore, France, London and Geneva. The events unite leaders from the Financial Services industry, startups and other innovators featuring panel discussions, demos and insights from our FinTech experts that are among the world's top influencers.

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Your FinTech Database

THE INNOVATIONS THAT MATTER

Our comprehensive database of company profiles covers a full range of financial services solutions from FinTech start-ups to large corporations. Each case study contains a thorough overview of the company's solution, business plan and strategy. We also know that implementation is key and we strive to provide a repository that will help inspire the development of disruptive innovations by sharing insights on breakthrough ideas blossoming all over the world, including best practices and recent trends.

FinTech Directory

Want to invest in FinTechs? Fintank is the place to get an international list of start-ups in the Financial Services industry.

CH&Co. Lab

The CH&Co. Lab is an incubator that develops prototypes based on our best ideas and convictions. We develop solutions and share them with our clients, such as Highway-to-Mail.

Innovation Booster

CH&Co.'s methodology around crystalizing energies in corporate organization to foster innovation – inspired by start-ups' approaches and business practices.

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