Driving your fintech journey

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The past few years have brought about significant changes to the fintech landscape. No longer seen only as a disruptive force in the financial services industry, fintech innovation is now drawing the attention of traditional financial institutions for its potential to spur positive change.

In fact, in KPMG's 2017 Global fintech survey, 97 percent of respondents indicated they see fintech as an opportunity.[1] For evidence of this shifting focus, one need only look at current trends in corporate venture capital (CVC) investment.

Corporate venture capital investment continues to rise

From the ability to grow the top line and transform the customer experience, to opportunities to drive efficiencies throughout the business, fintechs offer a range of potentially significant innovations. According to the Q2'17 KPMG *Pulse of Fintech* report, CVC investors have become key drivers of global investment in fintech, providing more than 2.6 billion US dollars (USD) to fintechs worldwide and accounting for more than 21 percent of all activity in the first half of 2017. The search for innovative services and solutions is central to this activity, as financial institutions look outside their own organizations for the capabilities needed to excel in a world of digital and sector convergence.

While many corporates are using fintech investment as a means of sourcing solutions to specific business problems,

> "While complexity is a significant barrier to financial institutions' speed of adoption, there are also deeply engrained cultural factors, which slow adoption and create resistance to change. Embracing digital innovation is thus as much a cultural challenge as it is a technical one."
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> **— Murray Raisbeck**

[1] *Forging the future: Embracing fintech to evolve and grow*, KPMG International, 18 October 2017, kpmg.com/fintechreport.

others have broader motivations. Some are looking to realize a financial return from fintech investment or responding to pressure from capital markets that reward a good R&D story.

The search for return on investment

With early players having 2–3 years of fintech venture capital (VC) activity at their backs, many are looking to realize a return to support a business case for continued investment. The horizon for returns for corporates is often shorter than in VC firms; a 5-year time frame is common due to reporting cycle pressures.

> Organizations that invest for a return outside their core competencies are going to reap mixed results and unintended consequences. Success will come from targeted investments with deliberate approaches, especially those that are looking to support technologies that alleviate pain points within their business.
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> **— Matthew Smith**

As financial institutions' investment arms become more established, many are focusing on later-stage deals, seeking the ability to grow and scale through market-proven solutions. Corporate VCs are also diversifying their portfolios to reduce their risk profile by investing in technology firms in sectors adjacent to the financial industry in response to sector convergence.

Investments in areas such as know-your-client (KYC), biometric security for banking apps, and digital payments solutions are all reaching a point of maturity. Digital wallets are another high-potential area showing increasing traction, though market saturation means that consolidation is likely in this space. Other, more speculative, areas — including hot, headline-grabbing fintechs — are still years from showing a return. AI and blockchain show significant potential but have a long horizon for returns.

Aligning fintech strategy with business strategy

In KPMG's global fintech survey,[2] less than half of responding financial institutions reported having a full fintech strategy. An additional 42 percent say that their strategy is still being developed, while 10 percent say they have no strategy at all. These gaps can have serious consequences in years ahead, especially as the fintech landscape continues to transform.

Financial institutions looking to better align their fintech strategy with core business goals are encouraged to consider the following three key areas.

1. **Identify specific pain points.** While fintech and related subsectors, including insurtech and regtech, can address tactical challenges, the deeper potential is in using digital means to address larger strategic issues. Start with a practical approach: take a close look both within the business and in the wider market to identify high-potential opportunities for strategic transformation that can be driven by new capabilities that do not have to be built internally.

2. **Develop a strategic vision for a digital future.** Envisioning the future during a time of massive transformation is a complex process, and many end up getting bogged down in small details. Instead, organizations should look to answer four questions:
   - what role do we want to play in our clients' lives?
   - what will we be famous for?
   - where should we play?
   - how can we win?

   Responding to these questions will likely have significant implications for the organization's financial, business and operating models and, therefore, the way they identify new fintech capabilities to support their aspirations. Understand that not all institutions are going to win in the role they play today as a product or service provider, and that the time to invest in significant transformation opportunities is now.

3. **Identify specific innovation approaches.** Financial institutions may consider options along three main paths for investment: speculative investment for the purposes of financial return; improving the value chain through new capabilities that are incubated and then integrated into the wider organization; and/or the development of new 'greenfield' companies to avoid the challenges of legacy operating models.

Concerns such as legacy systems, people and processes have understandably monopolized many financial institutions' time and budgets. However, fintech is about more than addressing technological challenges. By embracing and encouraging the growth of fintech capabilities through investment, traditional financial institutions have the opportunity to reshape their financial, business and operating models and change their culture to succeed in a digital future. ■

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Matthew has over 15 years of experience working in the financial services sector. Primarily focusing on insurance, Matthew brings deep expertise in three critical areas: 1) strategy, 2) transformation design and leadership and 3) operational leadership.

[2] Ibid.