A person's hand is shown using a white stylus to interact with a tablet computer. The tablet is mounted on a white service counter. In the background, a blurred office or retail environment is visible. The overall scene suggests a modern, digital customer service interaction.

The future of FinTech in the financial services

From control and suspicion to smart
partnerships and mutual trust



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The Dutch FinTech sector has undergone spectacular growth over the past several years. A number of startups have made financial services less expensive, more efficient, and more user-friendly through the use of new financial technology and creative solutions. A few of them have even grown into leading players in the market. FinTech will therefore have a significant influence on the future of financial services. In fact, FinTech players are often seen as a threat to the traditional financial parties, who find themselves having to pull out all the stops to keep up with the innovations of the FinTech startups.

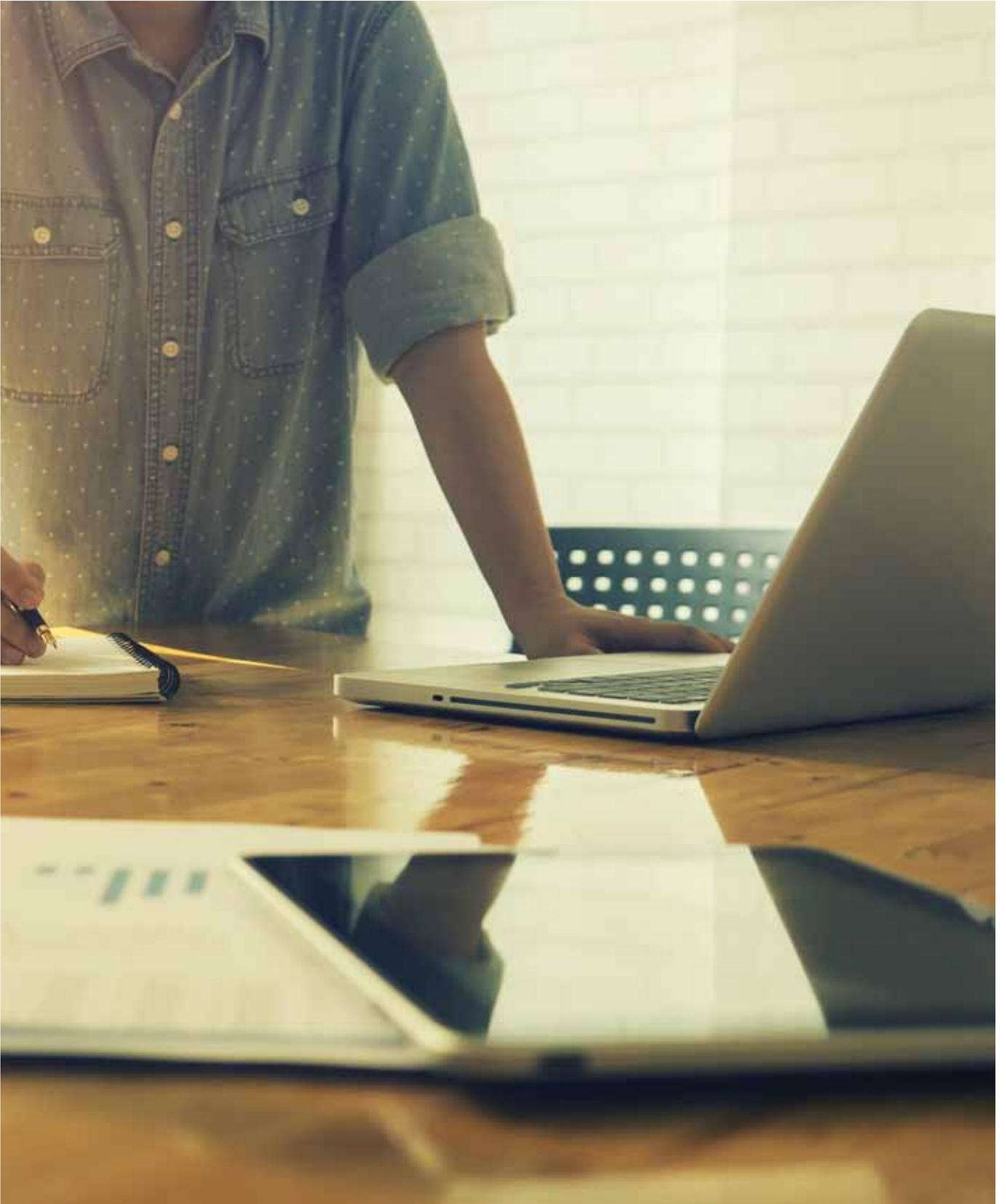
And yet it seems that the number of FinTech companies able or seeking to launch a serious attack on the established order in the Netherlands is very small. The main reason for this is that the Dutch banking sector is extremely stable, which means there is no urgent demand for innovation among customers. Furthermore, many newcomers in the financial sector have relatively limited reach. Most focus on a specific target group, which gives them little singular dominance in the financial world. Many innovative startups don't have the intent on replacing the bank as a whole, therefore, but have innovation as their highest goal. FinTech companies can complement traditional financial institutions and optimize and improve access to the financial sector using their specific expertise. Nonetheless, the established parties are having difficulties embracing FinTech. Because of this, mutual acceptance and the setup of innovative startups within existing business processes remains a big challenge. How can financial institutions optimally respond to opportunities in FinTech?

Current situation and bottlenecks

Although the traditional financial sector is closely following the rise of new, technology-driven companies, a growing number of financial institutions are creating solutions to utilize the knowledge, innovative strength and technologies of FinTech startups and stay ahead of the competition. They usually do this by accommodating FinTech startups in innovation centers, startup buildings and incubator sessions (also referred to as incubators). Here new entrepreneurs are given access to the facilities (workspace, access to servers and internet, coffee, budget, training, etc.) and infrastructure they need to become successful. At first glance, it appears to be a win-win situation. But today's incubator solution is not particularly desirable in the long term. One objection is that the incubator setup is often not focused on an equal partnership and an intrinsic desire for innovation, but usually arises from a defensive strategy and a desire to control the market. The goal of many incubator owners is therefore to screen startups, investigate their potential market share and score a bargain in acquiring promising parties or incorporating them in their own ecosystem. These startups pay a steep price for their free work environment. It not only costs them their freedom, they also see their dream of offering independent financial solutions and growing into a large party themselves evaporate.

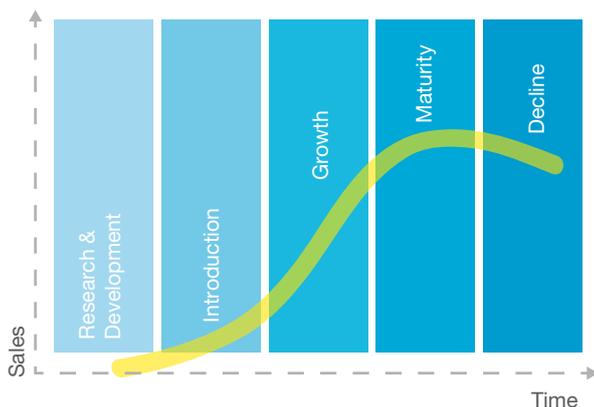
Towards a sustainable future: 'leave the dream alone!'

A number of talks with FinTech parties gives the sense that the incubators are spaces dominated by control, suspicion and enrichment for the incubator owners. This sense should be changed by creating places where the startups' needs are the main starting point. In order to understand the needs of FinTech startups, it must be clear that the ecosystem of startups and that of traditional financial institutions are far from aligned. FinTechs also have a different product lifecycle (see Figure 1). For instance, the normal 'introduction and growth phase' at FinTech startups is mainly focused on creating innovative ideas, trying things out (and also failing!) and establishing



partnerships that contribute to realization of their dream. Traditional financial parties, on the other hand, aim much more towards stability, certainty and trust, in this phase. The R&D phase, as an addition to the 'existing' product lifecycle, precisely demonstrates the gap for the cooperation. The primary entry from businesses will take place around the exclamation point. Identifying the phase in which the FinTech currently finds itself is extremely important for improved cooperation with other parties. Whether the FinTech/startup is engaged in the creative process (R&D) or is starting execution (Introduction) means a different approach and different needs in terms of assistance on the part of the FinTech/startup.

Figure 1: The different product lifecycle of FinTechs



The scale of the established parties is then needed in order to advance the startup's idea. Furthermore, it emerges that many new businesses need assistance in the areas of security, sales, support and stability (the 4 'S'es). In order to allow talented parties to dream and develop these dreams, traditional financial institutions should focus much more on coaching and guidance, therefore. The four basic principles below provide a starting point:

- Equality/partnership;
- Mutual trust;
- Financial equality;
- Freedom to continue dreaming.

Only then can a sustainable and constructive cooperation arise that presents opportunities for both the party providing the incubator and the FinTech startup. This does require a turnaround in mentality, however. Providing a space with all the bells and whistles is not enough. After all, the world of

engineers is based on cooperation, learning from each other, failing and reinventing. Traditional financial companies would be wise to facilitate this 'learning process' instead of regarding 'failing' as something negative. For a FinTech party, it is also appealing to be able to participate in an environment with energetic and capable engineers. To attract promising FinTechs, therefore, it is important to set up an incubator in which the established community is already active.

Practical ways of doing this could include, for instance:

- Fail of the week. A prize for the engineer who has failed the most. The winner is asked to explain why he or she failed and how this can be prevented the next time. This ensures that a mistake is seen as a positive thing and shared and others learn from it.
- DIY day. Every month or every two weeks (a fixed pattern is a mandatory requirement), engineers are given the freedom to do what they want. This could be 'normal' work, or working on an idea of their own.
- Knowledge sharing. 'Meetups', 'knowledge sessions', 'partners sessions' and 'online sessions' contribute to the acquiring of knowledge and implementation of behavioral changes. Sharing knowledge means knowledge becomes widely available. The technological changes happen so quickly that a new framework becomes mature every month. The experts in the new framework are the next leaders of the community.
- Student days. Organize special educational days and hire students from universities and higher professional schools as interns at the incubators.

Conclusion

The conclusion that can be drawn is that a structural turnaround in mentality in the established order is first required before investing in incubators. Next, motivated and passionate leaders are needed who are willing and able to set up these kinds of environments and who have sufficient mandate and support to bring about the desired changes. Be open to these changes. Allow others to dream and do not forget to let all parts of the business participate in the incubator, not just the IT and engineering departments.