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RESPONSES OF TRADITIONAL PLAYERS

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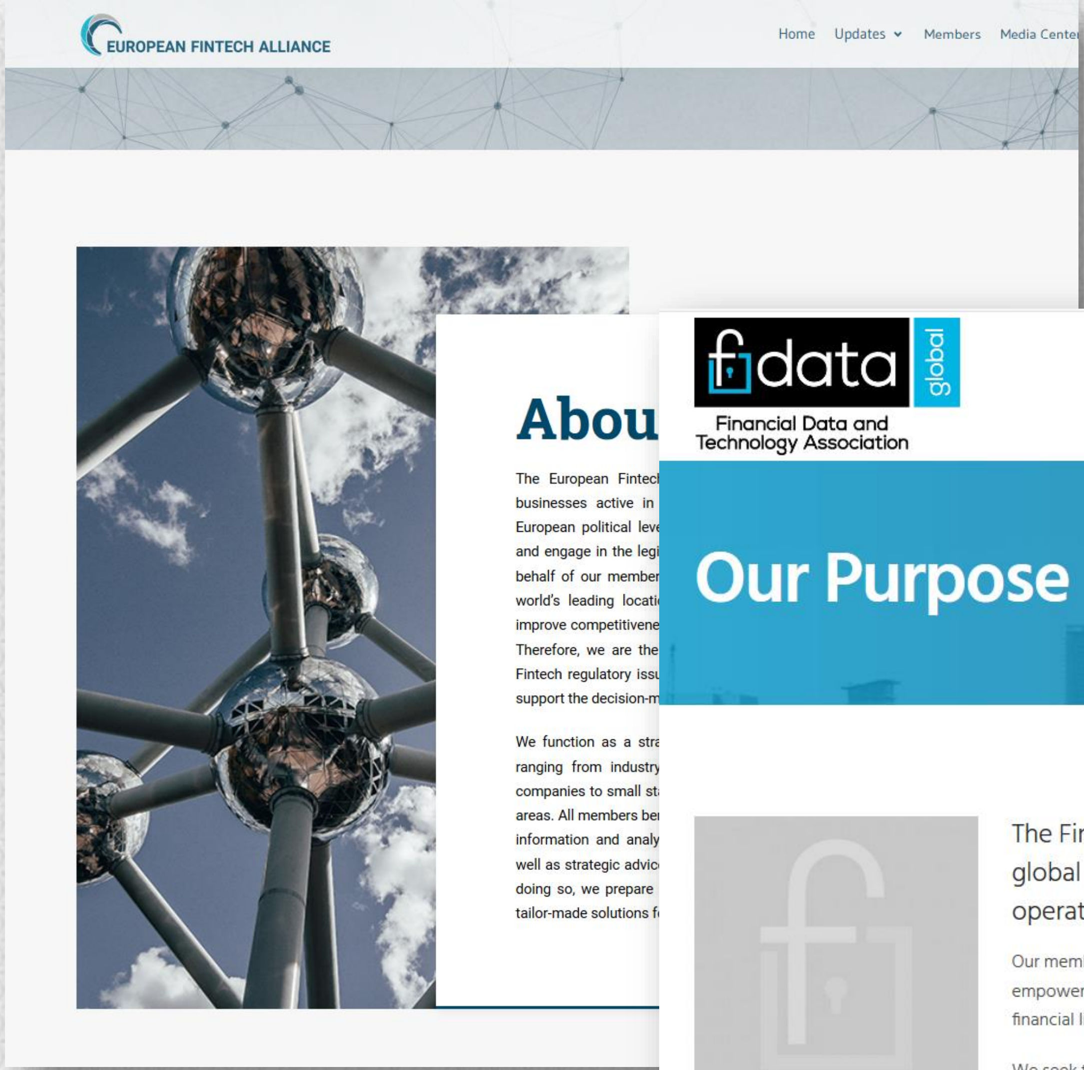
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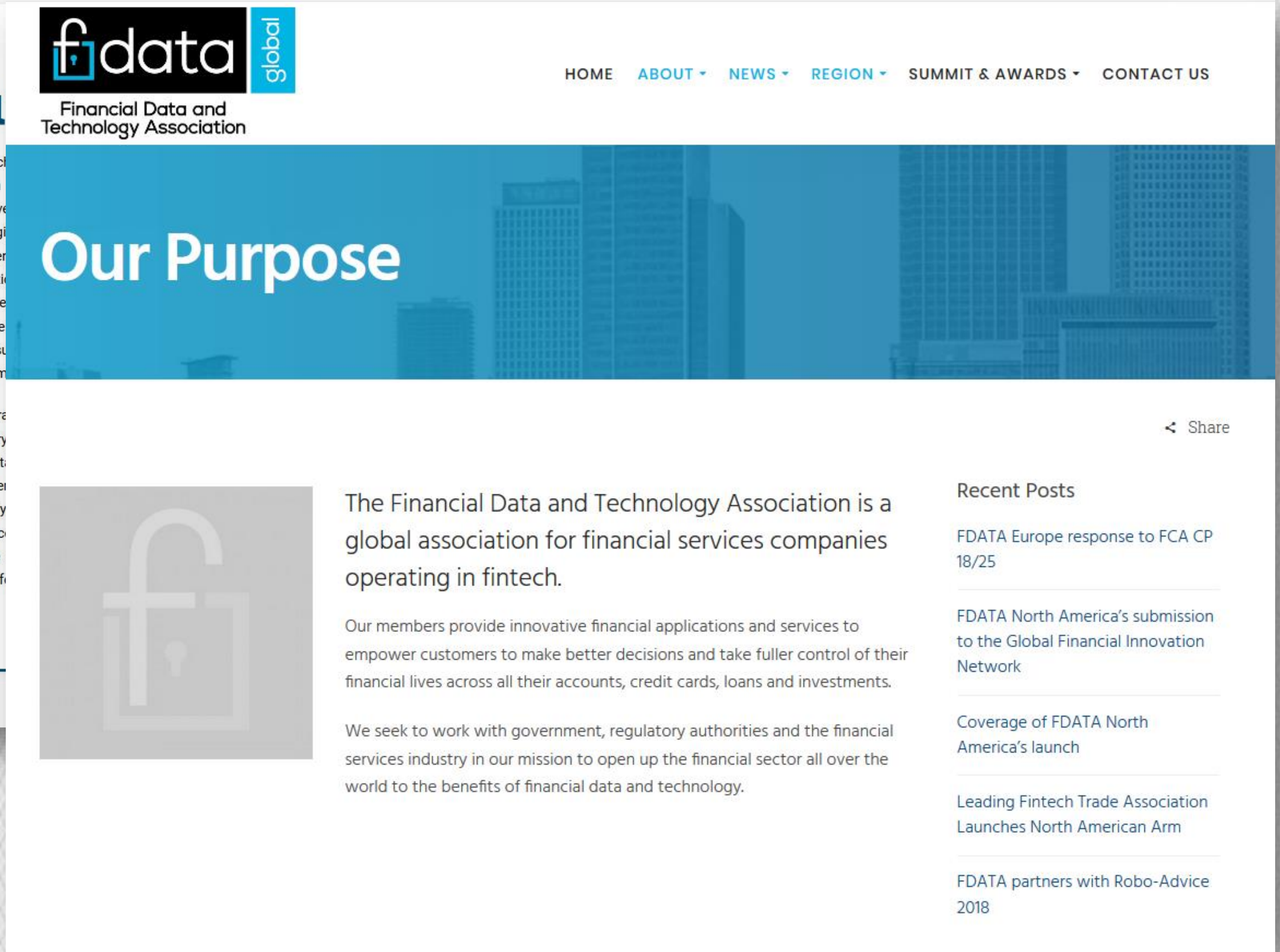
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The Financial Data and Technology Association is a global association for financial services companies operating in fintech.
Our members provide innovative financial applications and services to empower customers to make better decisions and take fuller control of their financial lives across all their accounts, credit cards, loans and investments.
We seek to work with government, regulatory authorities and the financial services industry in our mission to open up the financial sector all over the world to the benefits of financial data and technology.
Recent Posts
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Challenges of Make

- Fintech companies have a competitive advantage due to the *technical debt* accumulated by traditional players.
- The more complex a system becomes, the more frequently it needs to be upgraded and the higher is the associated technical debt.
- The digital transformation has led to changes in the management of projects, with large groups adopting development methods and more agile ICT. These changes are similar to the ones used by tech startups.

Challenges of Buy

- Traditional banking and financial players have not been very active when it comes to investing in or acquiring fintech companies.
- Acquisitions of fintech startups by traditional players are even rarer. Financial institutions seem to be afraid that they will slow their target’s momentum, or will struggle to merge the new entity with their existing development teams.
- The main motive for purchases by incumbent companies seems to be, again, to acquire a new technology or development team that can help them upgrade their offering as quickly as possible. Combining a fintech startup with conventional banking services is a way of developing new services in the short term. It also makes it easier to shift traditional customer relationships toward a more interactive and personalized model.

Aspects for FinTech to Consider

- Fintech firms should never forget or compromise on their long-term vision, no matter how tempting the short-term benefits might be.
- Collaborating with an existing financial institution can decrease the time to market and the costs substantially by leveraging not only the financial institution’s existing customer base but also its skilled and experienced sales teams.
- Fintech companies must consider how many parts of the value chain they need to capture in order to be successful.

Aspects for Traditional Banks to Consider

- The banking industry needs to look at the bigger picture and properly access the long-term impacts of a partnership or acquisition.
- When considering collaborating with a fintech startup, financial institutions should consider the “make vs. buy” options. FinTech companies must consider how many parts of the value chain they need to capture in order to be successful.
- One important area where fintech forms are especially good at, and traditional financial institutions have difficulties with, is iterating a product until finding the right solution that fts market needs.
- Due to the ephemeral nature of many startups, financial institutions should also evaluate the record of accomplishment of the teams they are looking to collaborate with on many levels.

Accelerator Programs and Incubators

- A business incubator provides startups with an environment that support them in three areas: knowledge development, funding, and network.
- A business accelerator is a fixed-term, cohort-based program that include seed investment, connections, mentorship, educational components, and culminate in a public pitch event or demo day to accelerate growth.
- The two concepts are sometimes interchangeable, but they also have differences.
- Financial institutions tend to prefer accelerator programs for obtaining new knowledge regarding emerging technologies by means of cooperating with groups of startups in a relatively short period of time.
- In the use of accelerators initiatives, two phases are important:
- Production of new knowledge;
- Implementation of new knowledge.
- Traditional fnancial institutions generally meet most of the difficulties in the second phase due to a general high internal resistance and an overall large

Characteristic	Value in accelerators	Value in incubators
Duration	3–4 months	1–5 years
Cohort based	Yes, approximately 10 startups	No
Equity	Yes, around 5–8%	No
Participation fee	No	Minimal
Startups phase	Minimal beta-product	Low to medium
Education and technical assistance	Different seminars	Ad hoc. HR/Legal
Working space	Yes	Yes
Final	Demo day	Ongoing
Business model	Mainly investment	Rent, non-profit

"Barclays recognized, very early on, that they needed to help their customers be more digital, help their branches be more digital, and to be a digital workforce. In order to do that, they needed to take enthusiastic, passionate staff and give them that digital expertise. That's where we came in."

- Emma Cerrone, Co-founder and CEO of FreeFormers

One example of an advantageous collaboration is the one provided by FreeFormers, a London startup that has demonstrated how to develop a win-win partnership with financial institutions. In more detail, FreeFormers is specialized in supporting enterprises in their path toward digital transformation. FreeFormers works with Barclays' employees with a double-fold aim: transforming them into a digital workforce and supporting them in teaching digital skills to their customers.

"[My six-year-old son] will never use a plastic card or checkbook to pay for anything (and likely no cash either) and he'll interact with hundreds of computers that don't have a mouse or keyboard."

- Brett King, writer

One example of a successful partnership between a bank and a fintech startup comes out of Kenya, where fintech company M-Pesa opened up money accounts by allowing credits on mobile phones (King 2016). Since 2006, financial inclusion in Kenya has grown to 85% as a result. At first, the banks in Kenya fought to get M-Pesa shut down, but the Commercial Bank of Africa decided to work with M-Pesa. In 2012, the bank began offering a savings account linked to M-Pesa. In the three years that followed, there was an increase of 4.5 million customers, which added $2.2 billion in deposits. The key was to make the process as frictionless as possible for the customer to open the account.

ASSIGNMENT 1.

What is your innovation idea to the finance industry? What is the business model?

ASSIGNMENT 2.

Familiarize yourself with:
Chen, Mark A., Qinxi Wu, and Baozhong Yang. “How Valuable Is FinTech Innovation?." *Review of Financial Studies* (2019).