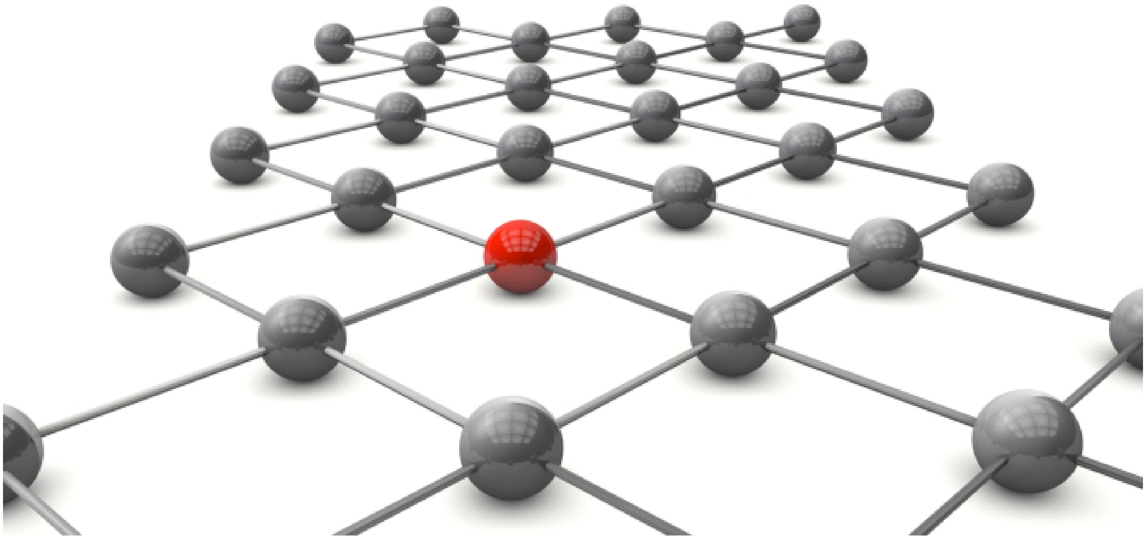
Navigating the fintech landscape with a customer-market-competition matrix



New fintech firms are bringing a stream of technology innovations to the financial services industry, and banks and other incumbent firms are experiencing extraordinary competitive pressures and process-disrupting new rivalries in many of their primary business areas. Industry and academic observers think this is a revolution, with financial services as a whole due for major improvements in the efficiency of core operational technology platforms, price reductions for access to essential transactional services, and new ways to conduct a myriad of business activities in financial services.

In a recent article, we interpreted trends in capital market investments and the forces of emerging technology in the "fintech revolution." In late 2017, VentureScanner listed 1,537 companies that received US$80.4 billion in venture capital (VC) funding for fintech innovation start-up activities. A total of 291 companies in 74 countries raised US$4.5 billion for bitcoin initiatives, and 449 companies in 61 countries obtained US$19.5 billion to grow insuretech innovations. These numbers represent an expansion in start-up funding since the global financial recession in the late 2000s, and the largest historical expansion in capital formation for high-tech entrepreneurship to date among modern economies.

The take-away from our research for *LSE Business Review* readers is a new framework for the analysis of the fintech innovation landscape. It provides a way to interpret recent and future market developments in terms of a 2 x 2 matrix (I, II, III, IV) that consists of two primary orienting ideas:

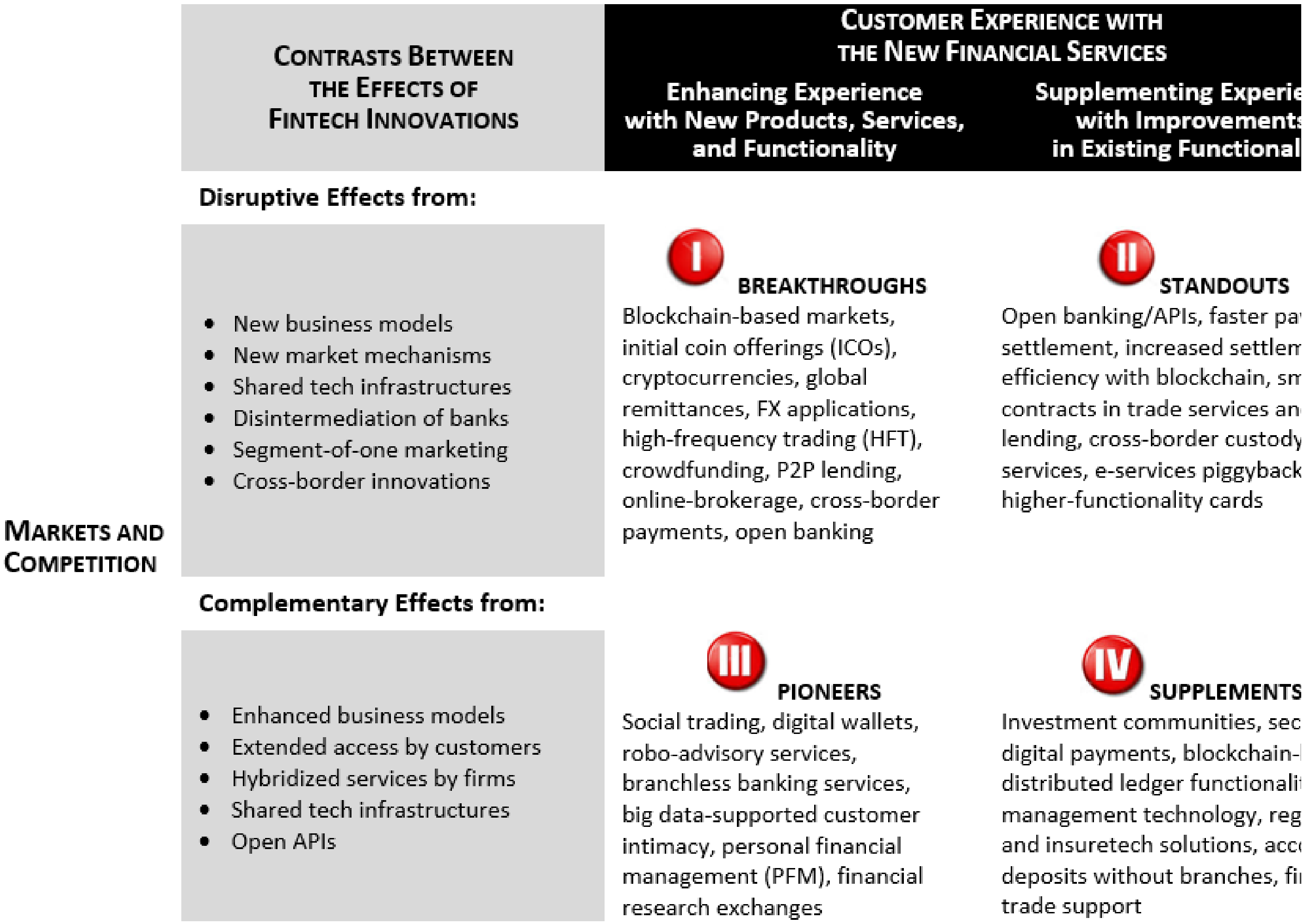
- The contrasts that arise from the disruptive or complementary effects of fintech innovations, with new markets and competition between start-ups and incumbent firms around financial products and services.
- The enhancements to the customer experience with the fintech services that offer entirely new products, services and functionality, as compared to the improvements in customer experience through the reworking of existing functions.

The ***disruptive effects*** include: new business and market models that have been emerging; shared technology infrastructures that start-ups and their partners are building to overcome their individual capability shortcomings; the disintermediation of financial institutions in lieu of smaller, new, no-vested-business interest players. In addition, there is: "segment-of-one" marketing to corporate and retail customers; and cross-border innovations that affect international trade, FX transactions, remittances and cross-market investments.

The ***complementary effects***, in contrast, focus on: enhanced business models that create improved or new kinds of functionality in the market; extended access by customers that change the reach of a firm's services; hybridized services by firms that mix different kinds of functionality (as with international remittances without cross-border FX trades being required); shared technology infrastructures that create ubiquitous platforms and platform envelopment strategies between existing players to achieve newly integrated multi-platforms combinations; and open APIs that prompt wider industry participation and connectivity.

The fintech innovation matrix we offer will help leaders identify the right type of strategy to solve a financial services business problem.

Figure 1. Fintech innovation landscape: a market, competition and customer experience matrix (click to enlarge)



	Contrasts Between the Effects of Fintech Innovations	Customer Experience with the New Financial Services: Enhancing Experience with New Products, Services, and Functionality	Customer Experience with the New Financial Services: Supplementing Experie with Improvement in Existing Functional
Markets and Competition	**Disruptive Effects from:** • New business models • New market mechanisms • Shared tech infrastructures • Disintermediation of banks • Segment-of-one marketing • Cross-border innovations	**I BREAKTHROUGHS** Blockchain-based markets, initial coin offerings (ICOs), cryptocurrencies, global remittances, FX applications, high-frequency trading (HFT), crowdfunding, P2P lending, online-brokerage, cross-border payments, open banking	**II STANDOUTS** Open banking/APIs, faster pa settlement, increased settlem efficiency with blockchain, sm contracts in trade services an lending, cross-border custody services, e-services piggyback higher-functionality cards
	Complementary Effects from: • Enhanced business models • Extended access by customers • Hybridized services by firms • Shared tech infrastructures • Open APIs	**III PIONEERS** Social trading, digital wallets, robo-advisory services, branchless banking services, big data-supported customer intimacy, personal financial management (PFM), financial research exchanges	**IV SUPPLEMENTS** Investment communities, sec digital payments, blockchain- distributed ledger functionali management technology, reg and insuretech solutions, acc deposits without branches, fi trade support

On the horizontal dimension, we ask: *'How does the customer experience the fintech innovation?'* Is there a new alternative product, service or functionality to perform a task that substitutes for an existing financial services offering? Otherwise, we say the innovation supplements the customer experience with improvements in existing functionality.

For the vertical dimension, we ask: *'How is the market or industry likely to be impacted by the fintech innovation?'* On one hand, it could be a disruptive innovation produced by outsiders and entrepreneurs rather than existing market-leading companies. Or, it could be a sustaining innovation that improves a product in an existing market and does not significantly affect the existing market.

We label the matrix quadrants as *Breakthroughs* (I), *Standouts* (II), *Pioneers* (III), and *Supplements* (IV).

- In (I) are *Breakthroughs* – new, vastly different offerings targeting customers whose needs were previously unserved by incumbents.
- In (II) are *Standouts*, which represent substantially better ways to carry out existing and well-known financial services that are potentially disruptive.
- In (III) are *Pioneers*, with new products, services and/or functionality for serving customers but ones that incumbent firms can respond to.
- And in (IV), *Supplements* are attractive incremental innovations that will enhance financial services offerings but not alter the competitive dynamics as much as *Breakthroughs*.

Fintech innovations are sets of tools designed to accomplish specific objectives. Different financial services tasks are open to innovations. For instance:

- *Secure digital payments* (in IV) is a well-defined problem in existing markets for consumer payments that fintech innovation now supports by creating secure P2P payment services.
- *Payment settlement* (in II) has been operating in many countries, but the shift to faster settlement in various regions such as Europe, Singapore, and Australia reflects a transformation-driven disruption for money and its availability for customer use with the potential to strategically disadvantage banks.
- *Robo-advisory services* for investment management (in III) complement what a human advisor or broker can do, and create the basis for new products and services in the market.
- *Blockchain technologies* (in I) have the potential to create new cybercurrencies, smart contracts, collectible art provenance services, opening up new, fast-growth markets for fintech start-ups.

Strategic leaders also must ask: W*hat critical resources do we need to implement a fintech innovation?* If there are many missing resources, for example, firms need to develop partnerships or extend someone else's platform. If there are unique human capital requirements, like software developers who know about blockchain programming and machine learning coding, access to their unique skill sets must be acquired rapidly.

Overall, our recommendation is that firms should have a portfolio of innovation strategies designed for their markets and their specific challenges. Our fintech innovation matrix helps leaders identify the right type of strategy to solve a problem, by asking: *How well can we define the task and the functionality? How are customers served currently? And can the task or function be revolutionised or disrupted?*

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Notes:

- *This blog post is based on the author's paper On the fintech revolution: Interpreting the forces of innovation, disruption, and transformation in financial services, Journal of Management Information Systems 35(1), 220-265*
- *This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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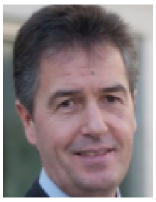

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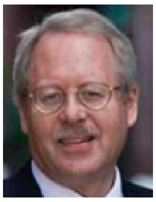

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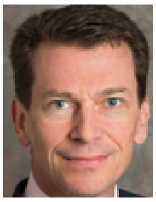

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