Institutional Investor

The Fintech Ultimatum: Adapt or Die

By Jay L. Hooley, Chairman and Chief Executive Officer of State Street Corporation

Many years from now, when people look back on the first two decades of the 21st century, the stories they will tell won't be about the financial crisis or its aftermath. Instead, this period will be remembered for the role that technology-driven innovation played in transforming and disrupting the way we live and work. Companies that fail to move quickly and decisively to adopt new technologies risk being rendered obsolete by those that do.

No industry or business model today is immune to the influence of technology. That power stems from its ability to provide a more personalized user experience, commoditize existing services, usher in lower-cost competitors and create new products and services that shake up the marketplace. We've seen abundant retail examples; look no further than ride sharing and digital music and the entrenched incumbents they are challenging.

Now it's the financial industry's turn. As breakthroughs in digitization begin to spur reassessments of business models, the value chain for financial services — from the front office to the back — is ripe for disruption. Success will depend on how we approach innovation and integrate technology into our business models. In other words, the fintech revolution presents an ultimatum: Adapt or die.

One of the most promising innovations that the financial services industry is beginning to explore and embrace comes in the form of distributed ledger technologies like blockchain. The reasons for its appeal are obvious. Blockchain enables the near-instantaneous and decentralized distribution, verification and recordkeeping of transaction information, potentially far more effectively and efficiently than current methods allow. It could create a single, shared and immutable source of truth for transactions — with far-reaching consequences.

I'm excited by blockchain's potential and pushing my team to make its benefits tangible to our clients. But it's important to recognize that blockchain is still highly experimental and in the earliest stages of development. Full-scale adoption requires addressing a number of challenges in such areas as trust, technical scalability, and regulation and governance.

Although we're far from realizing the full impact of the blockchain and other emerging technologies in financial services, companies can't count on business as usual. As we begin to delve into the new playing field, a few tenets can help prepare for the changes ahead.

•**There isn't one answer.** Take a portfolio approach to exploring emerging technologies and move quickly from one idea to the next, using prototyping and testing to manage risk. At State Street we're dedicating internal resources and partnering with start-ups and universities to study technologies ranging from machine learning to natural language processing to advanced data analytics.

•**Innovation exists along a spectrum; success requires balancing both ends.** On one end, sustaining innovation focuses on incremental improvements to better meet immediate client needs and create efficiencies. Though essential to maintaining or improving competitive advantage, it offers no great leap forward. Disruptive innovation, at the other end, overturns markets. As described by Harvard Business School professor Clayton Christensen, disruptive innovation circumvents existing products and services by creating back doors for entirely new customers, eventually redefining markets and customer expectations.

•**Great ideas can come from anywhere.** While it's smart to have teams dedicated to emerging technologies, no one group in your organization has a corner on innovation. Create a cross-organizational approach to capturing new ideas and motivating your teams.

•**Recognize that you don't have all the answers.** If you're inside your organization looking out, you're gazing in the right direction, because that's where you'll find most great ideas, no matter how innovative your culture is. Collaborate when you can, partner as needed, but always look for ways to expand your capacity to innovate.

The coming fintech revolution will see winners emerge not simply because they bet on the right emerging technologies or operating system but because their holistic view of technology and innovation positioned them to deliver real differentiated value for their clients in an increasingly commoditized world.

As our industry faces the fintech ultimatum, the question we all need to be asking ourselves is: How can we prepare our organizations for the changes ahead to ensure we don't get left behind?

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