



Dynamism in diversity

**The essentials for successful
innovation teams in the
financial industry**

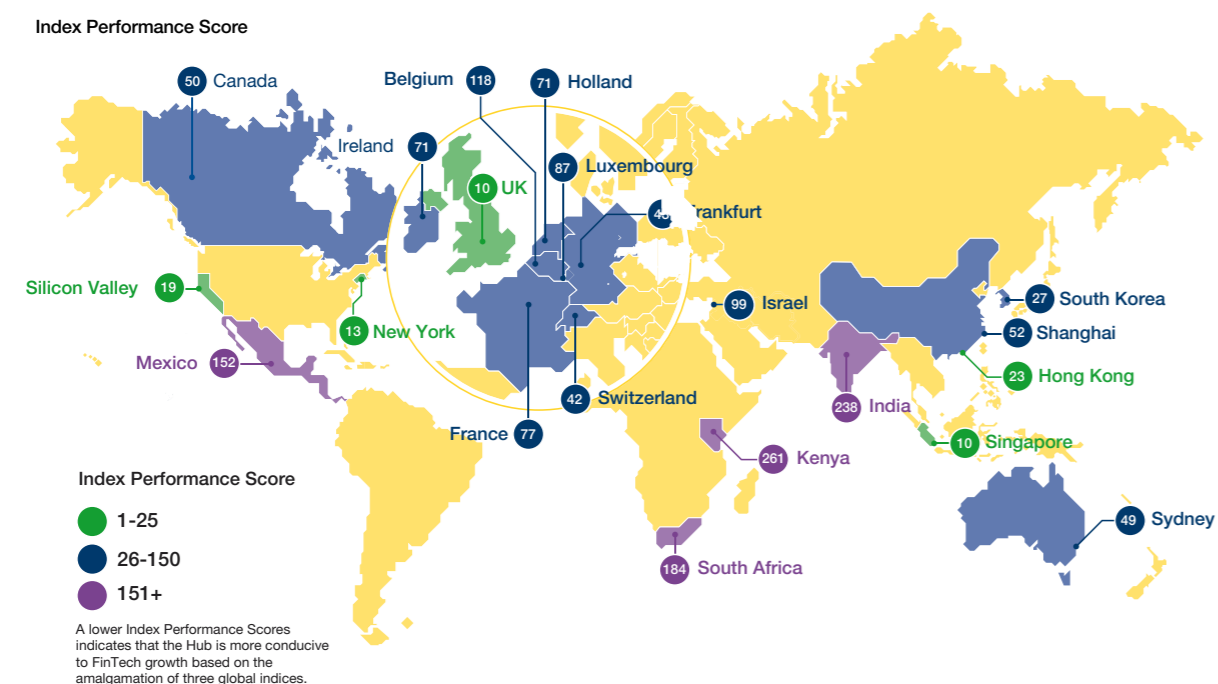


Executive summary

In a world full of FinTech startups, large financial organisations have up until very recently lagged slightly behind in technological innovation and change. Indeed, the formidable challenge for large financial organisations is to correctly channel ideas in a timely fashion whilst working within a complex, high-value and highly regulated business environment. What types of methodologies should firms apply to develop ideas and bring new products to market effectively, but in a relatively low risk manner? How can organisations establish a strong collaboration between their clients and their internal product, technology and operations teams to develop and launch truly meaningful products and services?

Innotribe set out to discover how firms can best benefit from innovation techniques by interviewing representatives of innovation teams from some of the world's leading financial organisations. Through our discussions we discovered that when innovation development methodologies are applied into a traditional business environment, interesting results can occur at unprecedented speeds. Indeed, as the recent [Connecting Global FinTech: Hub Review 2016](#) research shows (see diagram below), it is a combination of talent, regulatory and investment support, and strong collaboration that helps develop leading FinTech sectors.

Global FinTech Hub Review



Introduction: The core counts...

Today, innovation departments or innovation labs are ubiquitous within most of the world's largest financial institutions. It is common sense to expect that these newly dedicated innovation teams should align themselves with the business goals of an organisation, but firms have found that for innovation to progress from experimentation to practice, sometimes the organisation itself needs a bit of a kickstart. Innovation teams were created to turn innovation theory into practice, effectively helping the business to stay competitive.

Willing to deepen engagement with senior executives responsible for core innovation at their financial institutions, SWIFT initiated the Innotribe Anchor Group in 2015. Representing a global network of fifty Heads of Innovation and part of the wider SWIFT community, the group meets several times per year in order to exchange ideas

and inspiration on how to develop innovation across the wholesale financial industry, share priorities, and help drive the selection of innovation topics to be pursued through the Innotribe Industry Challenges, an initiative that was launched in 2016.

Looking at sharing best practice on innovation processes among the respective institutions, the group has the following main objectives:

- To create and foster high quality relationships between innovation peers at the very senior innovation level
- To explore with SWIFT possible areas for collaborative innovation
- To share best practices on the 'how' of innovation in financial institutions
- To share their insights with the broader community at key events like Sibos

For this paper, Innotribe spoke to eleven innovation leaders from top financial services institutions across the globe. Through these interviews, we wanted to learn more about what types of innovation frameworks they use, what works and does not work when practicing innovation, and what are the greatest advantages and barriers to innovation.

So here it is, top tips from the leading innovators in the wholesale financial industry on how to make innovation a success.



Innovation as a framework

When 'doing' innovation, a good governance structure is vital. It must be strong enough to differentiate between numerous ideas and turn the most relevant ones into product development. Innovation teams need vision, process and direction to succeed. For most innovation teams, a vision must create value and advance the firm's business objectives, just as it should for any other commercial entity. In short, innovation needs to have a clear connection to the growth strategy of the institution.

Undeniably the processes required to develop products and services in large financial organisations were bound to change in recent years due to the pace of technological developments and some competitive pressure from fast-moving FinTech startups. As a result, most innovation teams now use new lean and agile methods to develop products and services such as 'design thinking' and 'startup methodologies' - considered not only as powerful, but also easy to understand and

implement by the staff involved.

Furthermore, firms have invested resources into developing innovation frameworks to effectively accelerate and provide direction to the innovation process. The majority of firms we interviewed consider that innovation is best regarded as a process, using a basic innovation cycle or 'funnel' that focuses on open and global innovation, and is generally implemented through the following stages:

1 Ideation

The research or ideation phase is about cultivating a very diverse and active portfolio of initiatives including a full range of R&D, proofs of concept projects, prototype developments and minimal viable product developments. It is about discovery, raising awareness and understanding trends and developments occurring outside of an organisation, and their potential impact on the financial industry.

2 Evaluation

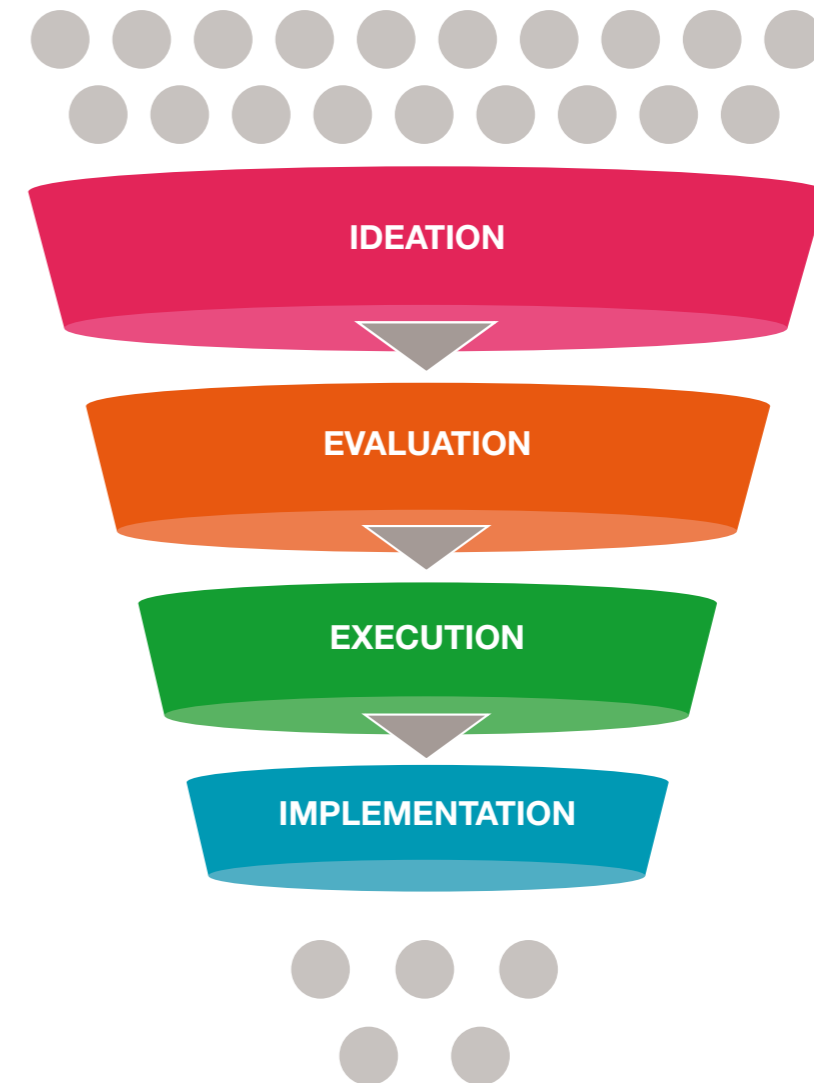
Evaluation helps determine how the research ideas fit in with the strategy of each respective company. It is important at this stage to ensure that the scope of the project is limited in order to avoid projects that are either too big to even get started, or worse, too big to fail.

3 Execution

In the execution phase, firms could invest in and adopt rapid prototyping capabilities and trials with proof of concepts. In the words of one organisation, this "iterative articulation" is about getting ideas out early and regularly so that stakeholders have a clear sense of what can be delivered.

4 Implementation

The fourth phase involves launching the new experimentation into the market. Once the business line has discovered, brainstormed, validated and planned the go-to-market, it can then move onto the actual development and release of the product or service.





DNA of innovation

Innovation teams themselves comprise a few basic components, the ‘DNA’ of innovation if you like, consisting of employees, clients and the wider FinTech community. But it is the actual interaction between each of these components that creates the ideas. In particular, the people working within the financial organisations need to reflect an element of diversity, accept a culture that allows people to fail and learn, and have buy-in from top management backed by a solid governance structure. Mix all these elements together and you are on your way towards the origins of an outstanding innovation team.

Employees: Power to the people

The importance of people in the innovation process cannot be over-emphasised. The question is how to empower employees to collaborate in an effective work environment. It has been shown that by creating a culture of innovation in an organisation, employees are more engaged at work and productivity increases as a result.

The positive influence of human-to-human interaction means that some organisations find it crucial to involve people right at the beginning of the innovation process. Creating the opportunity for employees to share across business lines and communities is also important. Some institutions focus on internal talent, investing in variations of crowdsourcing platforms with the possibility of employees presenting projects and voting on the best ones. Other institutions establish internal “startups” that allow employees to share and prototype innovative ideas in line with the strategic and operational needs of business lines, and “collaborative platforms” so they can build communities according to fields of interest.

The innovation teams interviewed delivered the same strong message: employees are an organisation’s biggest asset and should be trusted, supported, and nurtured.

Various themes on the importance of people within organisations were mentioned, including:

a. Diversity

The element of diversity is really at the heart of innovation. Some institutions go to extra lengths to ensure their workplaces are diverse, in terms of gender, ethnicity, age and professional background. This allows teams to obtain a true picture of what is actually going on in the outside world, or otherwise run the risk of a disconnect between the development team and the target demographic.

Other organisations focus on supporting a location strategy because it brings in many different mindsets from talent pipelines. This strategic approach provides different perspectives from all over the globe, given that each different region brings its own distinct industry problems.

b. Room to fail

Financial institutions are known for setting high internal objectives that do not allow their employees much room for failure. In contrast, startups often operate with a “fail fast, fail forward” philosophy that encourages the type of experimentation that leads to breakthroughs. Financial institutions have started to recognise the value of failure as a means to challenge the status quo both internally and externally. Many of the institutions interviewed for this paper have adopted this “fail fast, fail forward” approach for their innovation departments or labs.

Another key ingredient for fostering innovation is that no idea is a bad idea. Firms need to provide a culture and an environment in which all ideas are welcome and an effective governance vets those ideas in the context of strategy, consistency and feasibility. We also need to bear in mind that a good idea does not need to be a “big” idea; it is about empowering employees to come up with ideas that advance the organisation’s mission and values, whilst giving them the ability and appetite to fail

and apply these learnings to the next iteration of development.

Whilst the overwhelming majority of innovation teams agree that the tolerance level for failure needs to change, some warn that top management, whilst they understood the notion of failing fast, have still not warmed up to the idea because they are not willing to change existing business models or would simply rather not fail at all. As a result, a willingness to fail has been incorporated in the

innovation labs that banks have carved out for that very purpose. Managers need to be careful to avoid squashing incremental ideas as it is sometimes the smaller ideas that result in the biggest of successes.

c. Top management buy-in

Governance with a mandate from the top of the organisation is deemed integral towards building an innovation programme. The vision and direction of innovation strategy needs to be decided at

director-level ensuring alignment with business strategy.

But it needs to be more than just words. The executive team has to actually believe in the value of innovative thinking and give the innovation team the creative flexibility and license to go and do what they believe is right, even if considered unconventional. This allows creativity to flourish at its best and enables innovative solutions to eventually see the light.

Client involvement: Here to serve

When people discuss digital innovation in banking, they are usually referring to consumer retail services. Yet businesses also comprise a large portion of banking clients, and financial organisations need to consider how they can help these businesses become more efficient. Expectations from the end-customer have shifted, meaning institutions need to help provide their customers with the right digital tools and systems to better connect with their “customers’ customers” in turn.

In the wholesale banking environment, firms that simply build products or services in silos and then try to sell them to customers, run a higher risk of low customer adoption. Even if wholesale clients say they like an idea from a business perspective, they may

have other priorities which can lead to many practical barriers to adoption arising. The best place to start, therefore, is to involve clients early and throughout the process. This ensures the product or service in development truly addresses the client’s pain points and increases client adoption rates. Firms then need to identify pilot customers and work on innovation efforts, systematically testing each subsequent phase as a joint effort. Sometimes it is the development of simple products that are the easiest to deploy and, if they address a real pain point, will realise greater success.

Every organisation should think about what constraints it operates under and how best to apply innovation in a way that is meaningful for both clients and

shareholders. There is a paradox, however, in long-term planning due to the economic fundamentals of overcoming the inertia to the cost of change. Over a longer timeframe, firms need to discover those niches where the alternative way of doing things would essentially be so much better that people will invest in the change out of necessity.

Either way, innovation is not a concept that can thrive in a silo. Some organisations have found that by reaching out to clients, either via working groups, direct client meetings, conferences or other industry-level organisations, new opportunities can be discovered because these experiences allow them to view their business in a completely different way.

The FinTech community: Not a bubble

Innovation does not generally occur from within a bubble, making joint innovation with outside players inevitable. Direct engagement with the FinTech community not only helps organisations keep a pulse on new technologies, it also better positions firms to be early adopters and gain competitive advantages in the market. Firms benefit from this interaction by being exposed to different ways of leveraging new technology, and vendors and partners help firms envision different ways of delivering solutions to various business challenges.

Innovation teams use a variety of methods to reach out to the surrounding FinTech ecosystem. The first is to identify startups, sometimes through hosting an accelerator, hackathon or mentoring programme. These are essentially open talent competitions for early-stage FinTech companies, allowing firms to meet startups and talent firsthand and garner competitive intelligence.

Other firms send members or consultants to locations

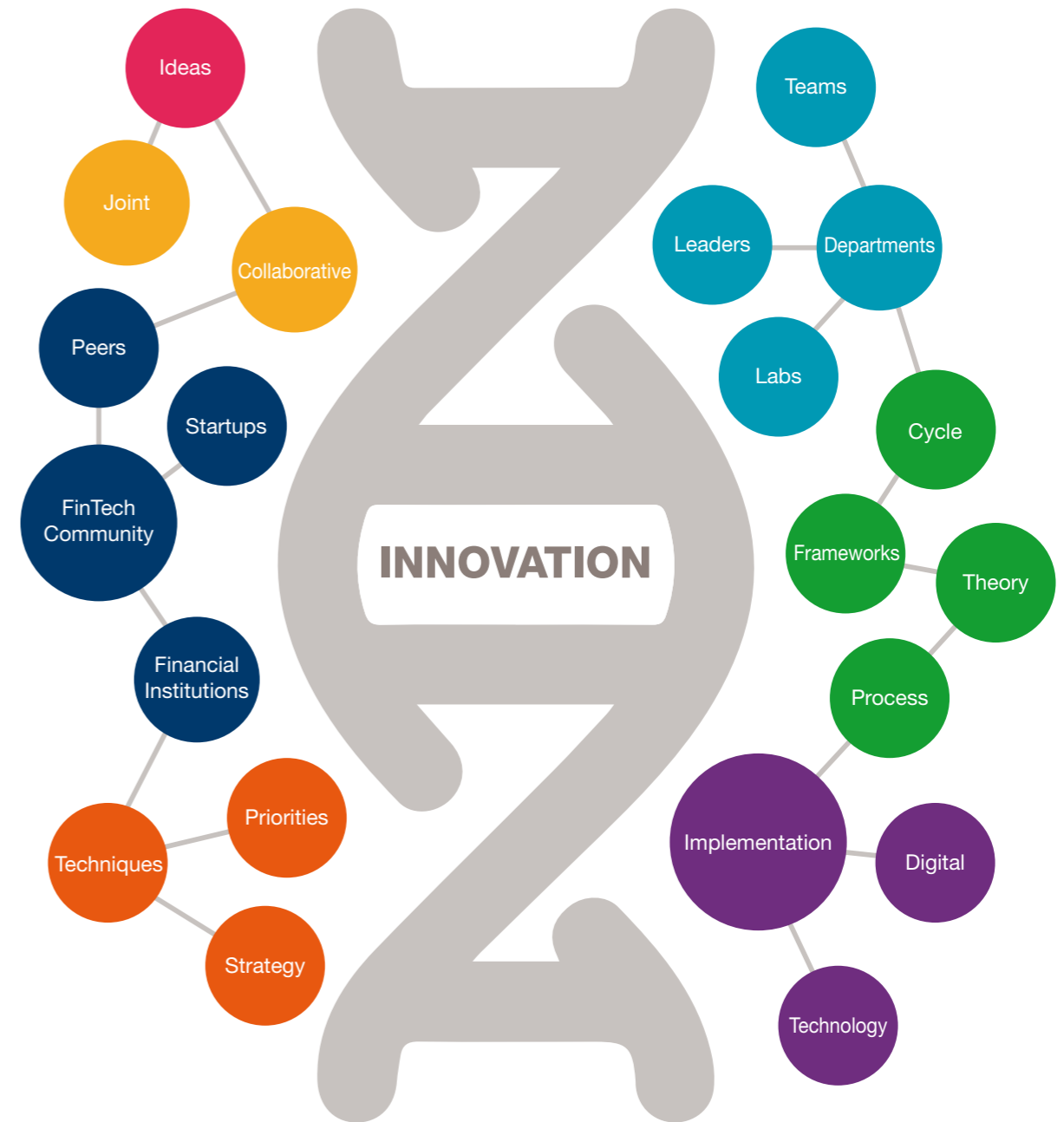
synonymous with innovation to identify new emerging technologies and different approaches throughout the world. If a startup shows an interest in a firm's business line, the firm can qualify any potential collaboration opportunities together. At this stage, the innovation lab is essentially acting as a matchmaker between the startups and business leaders within the organisation.

Another method is to buy stakes outright within a FinTech company that would enable a firm to create specific synergies, acquire a specific expertise, or create specific relations with technologies or business models that are particularly important for the firm.

Lastly, because of the importance of community-based software development, some banks are beginning to put an emphasis on the development of open source digital platforms in order to help contribute to the community, enabling an ecosystem in the true sense of the word. Various

organisations have even gone so far as to establish an application programming interface (API group), creating an environment where startups and incumbents can actually test out a bank's APIs and use them as a back end to create new products.

The overall key to success in collaborating with the FinTech community is to choose partners who have strong competencies and mutual interests. It also helps to have partners who have a deep understanding of the firm's business model and not just a superficial understanding of what a firm's problems might be or what customers might want. FinTech startups need to genuinely understand the banking context within which financial service providers work and its related processes, taking into account cumbersome regulation and stringent constraints on privacy concerns. It is only by working with partners who understand those realities and constraints, that long-term successful solutions are achieved.





The essentials for successful innovation implementation

With the components for innovation implementation in place (people, clients and FinTech community), our innovation leaders imparted three more ingredients to success, including: (1) a focus on business values; (2) creating a 'culture' of innovation, and; (3) ensuring speed of execution.

1. Focus on business values

With innovation being such a buzzword, there is a tendency to chase after it without having a clear understanding of what the end goals are. Having a very clear set of strategies is crucial to achieve the strategic alignment of the innovation department and traditional lines of business.

One of the key ingredients is to ensure the entire organisation is focused on the same mission, values and strategy so that everybody is laser-focused on creating value for clients and shareholders. When that focus is achieved, organisations are better placed to create value for customers and shareholders.

To start, innovation teams need an understanding of their clients' processes or underlying economic needs. Trying to deploy technology without having a good business context can tend to be a bit of a shot in the dark. Once the client need has been determined, the target becomes much easier, whether that be by directly going

into market looking for partnerships or by using trusted intermediaries to look for suitable partners. The trick is in flipping the customer problem around in order to see real opportunities that can be identified by either looking for capabilities to innovate within an organisation, or working with partners to identify the skill sets and technologies that might be deployed to solve the problems.

What does not work is trying too hard to go for a high level of innovation or R&D without a tangible customer need or business problem that you are trying solve. A firm's innovation strategy is only as good as its business strategy and the best solutions are those with the best return and value. As one of our interviewees advised, "We need to remember that we are not driven by technology, but rather inspired by technology...and ultimately driven by profit and loss statements."



Innovation is nothing without experimentation. We have to experiment, but be able to separate the buzz from true use cases.

2. Culture of innovation: Step by step

The innovation leaders made a general distinction that rather than chase the FinTech boom, organisations should place emphasis on the importance of constant, steady innovation and achieving efforts on a step-by-step basis. Some innovation leaders have the express goal of making innovation the role of each and every employee within the organisation. In this scenario, everyone has the ability to innovate and it is the job of the innovation team to create the right environment and supply the right tools so that employees feel

empowered to participate in solving customer problems.

Other leaders pointed out that people working within innovation departments have the luxury of being able to stand back from the day-to-day workings to see the big picture. As a result, it can sometimes be difficult to present big operational changes to the people working on those day-to-day problems. In these situations, there is a need to think big but start small, and recognise that everything cannot be changed all at once. A few small things can

sometimes help to bring change to the company in a larger way.

When organisations create and motivate teams with specialised skill sets and talents, the result is usually greater productivity, more targeted analysis and speedier concept evolution. Teams driven by their own competitive nature tend to stand out and contribute to causes that are much greater than themselves. The companies that create environments where smart collaboration is part of the culture are much better positioned for success.

3. Speed of execution

Because of the speed in which today's world is moving, organisations must have an open mindset and be constantly on the lookout for new ideas, projects and trends, such as the next crowdfunding service or payment system. This requires organisational agility to adapt rapidly and successful firms will be the ones that anticipate the skills needed to build the bank of tomorrow.

This approach is all about speed, from the identification of the problem, to having a robust

method to deriving hypotheses, to the experimentation that will ultimately produce useful solutions to the customer. Most innovation leaders promote agile methodologies, which involve sprint teams doing tasks in very short periods of time. Agile processes can involve an interactive model with clients working directly with technology teams and providing constant feedback. Rapid prototyping allows designers and developers to enable product areas and attain validation on their newest ideas, quickly and cheaply.

As one innovation leader explained, "It is about getting ideas out of PowerPoint and putting them into the client's hands so direct interaction can occur." Some firms have even acquired specialised software allowing for the fast creation of high fidelity, dynamic prototypes which enables teams to interact directly with concepts.

All players are keenly aware that we are at the inception of building a new financial world and being a first-mover brings huge advantages. The race is most definitely on.

Conclusion

Financial services organisations are keen to use the benefits that technology can provide, making both customer relations and business operations more efficient. The growth of innovation teams in major financial institutions around the globe simply emphasises how important technology and innovation have become in the banking world.

To create a successful innovation team, leaders should include certain components (the *what's*) in the innovation setup, including a diverse staff who are willing to fail and learn with the blessing of top management, the correct identification and prioritisation of client needs, and interaction with the wider FinTech community.

But the secret to innovation is in the execution (the *how's*). Innovation needs to be aligned with the business values of the overall organisation with an understanding that sometimes small, incremental change is better than a big bang of modernisation, and that the agility and speed in implementation of new products and services will help better serve the financial customers of tomorrow.

During this time, hailed by some as the dawn of a new financial era, firms need to ensure that the building blocks of innovation are firmly in place to oversee a successful evolution.



It is inspiring that the community of financial institutions is increasingly willing to collaborate and partner for customers.

Credits

Timothy J. Bosco, Senior Vice President, Brown Brothers Harriman (BBH)

Claire Calmejane, Director of Innovation & Digital Development, Lloyds Banking Group (LBG)

Christophe Chazot, Head of Innovation, HSBC

Nigel Dobson, General Manager of Transformation Projects, Australia and New Zealand Banking Group Limited (ANZ)

Genevieve Douhet, Associate Director of the Group Innovation Department at Societe Generale SA

Eiichi Kashiwagi, General Manager of the Digital Innovation Division at the Bank of Tokyo-Mitsubishi UFJ (BTMU)

Sebastien Nunes, Head of Innovation and FinTech at BNP Paribas Securities Services

Robert Palatnick, Managing Director & Chief Technology Architect, Depository Trust & Clearing Corporation (DTCC)

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We're not driven by technology, we're inspired by technology.





Launched in 2009, Innotribe was created to identify the emerging technologies and innovative trends surrounding the financial services industry and generate discussions on their potential impact moving forward. Benefitting from SWIFT's central position, Innotribe provides a platform to the global financial community to understand the dynamics behind technology changes. In 2016, Innotribe launched its new model for industry collaboration, bringing together member institutions, FinTech vendors, startups and SWIFT business and IT leaders in the development of proof of concepts around Compliance, Cyber Security, and Distributed Ledger Technology for Securities.

**For more information about Innotribe,
visit www.innotribe.com**