CFA SINGAPORE INSIGHTS

By Pranay Gupta

Which one should come first: Fin or Tech?

Whether you are a student, a professional or a CEO, managing fintech disruption is a challenge and the old rules don't apply

THOSE of us already in financial services see the tremendous potential and threat of innovative fintech startups. How can each of us – students or professionals, and companies – adapt to this change? Fintech at its core is an amalgamation of finance and technology. But what comes first? Is it Fin-Tech or Tech-Fin?

Let's consider the individual first. Except those finance professionals who studied some version of computer science at university, we are all trying to catch up with technology.

The bad news is that we didn't know enough about technology then, and any attempt to catch up now as technology advances by leaps and bounds is futile. Many fintech executive education programs devolve to explaining popular technology buzzwords, but without the depth necessary to actually create anything.

Which discipline should a teenager choose as his university major to embark on a fintech career? Finance, technology or a hybrid course like financial engineering.

Route 1: Study finance first, catch up on technology later

A teenager who follows this route generally ends up becoming a digital strategist, project manager or business analyst who attempts to translate the domain requirements of finance to technologists and vice versa. But that's like being a translator between two languages, where you just know the alphabet in each language but don't know any words in either language. Not exactly the perfect toolkit to disrupt.

Route 2: Study technology first, catch up on finance later

What if you study technology first? Cloud computing, data science, machine learning, application development and more. Surely armed with this knowledge you can create financial disruption. But how do you know what to disrupt if you don't know the domain?

Route 3: Do a hybrid course

How about financial engineering or computational finance – the combination of mathematics, finance and technology. A good blend, but in most cases these graduates become quantitative finance professionals, which is an underexploited disruptive force, but not of the fintech type.

There appears to be a shortage of mainstream fintech programs at the tertiary level, as most fintech courses are curated as a combination of existing finance and computer science courses – not necessarily an integrated blend that leads to innovative disruption.

Both finance and technology are deep fields in themselves. There are plenty of finance professionals and plenty of technology professionals, but few who know both disciplines at a depth to enable disruption. While learning is easier than it has ever been, given the pace of technological change, it's probably easier for a technology graduate to learn finance, than for a finance graduate to catch up on technology.

Managing disruption in the corporate world

Unfortunately, companies have similar problems in managing disruption – on the one hand, they have technology teams serving as a backbone to their business, but don't know enough about the frontline domain to be productively disruptive.

And on the other, they have domain experts who don't know enough about technology to know how it can help them, and even if they did, most are always somewhat reticent to disrupt their own function and thus potentially lose their corporate role. Both are handicapped by their existing jobs and the inertia of scale.

So how should a financial institution equip itself to manage disruption? Many have chosen to set up digital departments or innovation labs. But how effective are they in having a meaningful impact on the core business model – something a CEO would want, but not necessarily what his lieutenants would.

One thing is for sure – the governance of disruptive efforts is the single biggest factor that can lead it to be a wild success or a total failure for an organisation. There is no perfect structure, but there are the do's and don'ts.

The business of a financial institution is its domain. Technology is an enabler, not the mainstream business for a financial institution. Aligning a digital enablement group with the technology vertical, can lead to creating a team which is separated from the business domain, and can often be viewed as a competing business parallel to the existing one.

For digital enablement to be successful, it must sync with the existing business, not run parallel to it. Existing business heads of that product segment need to be empowered to use digital technologies as a tool or as a new channel and must have governance supervision of the digital team.

However, efforts to disrupt existing business models can also be met with resistance from existing business heads. A fintech group must also have a reporting line to a new executive function – the chief innovation officer. Governance at a lower level than the top often leads to suppression of innovation.

Corporate policies in organisations are generally built for mature businesses, not for disruptive startups. Latitude in corporate policies is necessary to create a sandbox for innovation to flourish – be it dressing and working hours or IT polices and meeting decorum.

Business models and HR policies need to adapt to cater for innovation. Fintech disruptive efforts are long-term bets. They don't bank on cash flows like a monthly salary; they are incentivised by equity ownership of the idea.

There are many reasons why fintech startups succeed where financial institutions don't. People, skills and governance structures are paramount. Whether you are the CEO of a financial institution or a teenager trying to disrupt one – managing fintech disruption is a challenge and the old rules don't apply.

As has been said, we tend to overestimate the impact of technology in the short run, and underestimate its effect in the long run.

Pranay Gupta, CFA, is a Research Consultant at the Centre for Asset Management Research and Investments (CAMRI) at the National University of Singapore. The views expressed in this article are his own and not of any of his organisational affiliations.