


WHY FS FIRMS CAN'T LET SECURITY FEARS AND REGULATION GET IN THE WAY OF GOOD IDEAS

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By Simon Hill, CEO, Wazoku

It has been said that Financial Services (FS) is one of the most heavily regulated industries, one of the most conservative and one of the most resistant to change. This is true to an extent but it certainly doesn't mean people don't like the idea of a new approach. When I speak with FS firms, a common thread is that they love the idea of being more innovative but feel that implementing new technologies to help can be problematic.

People have concerns about security and intellectual property (IP), but also doubt their ability to be agile and bring ideas to market fast enough for them to have an impact. Yet good ideas in FS have never been so important, so it is imperative that FS organisations cast aside their concerns and embrace a culture of innovation.

Where is the innovation?

A 2007 McKinsey report revealed that FS executives saw innovation as important to the performance of their organisation and that they expected their spending on innovation to increase. It is hard to see where this has happened, yet crowdsourcing of ideas – whether internally or externally – is now a proven business technique. It's a development of the old proverb 'many hands make light work' and can be applied to FS just as easily as it can to other industries.

In fact, it needs to be. Other industries are more steeped in innovation than FS and are therefore more receptive to new approaches and methodologies. Standing out from the crowd and offering more effective and efficient services than the competition is how any FS provider will thrive and survive and the tools are available to do that.

Idea management is a relatively new concept, and in its purest form is a way to generate, share, harness, analyse and evaluate ideas. This can be done internally or externally, so for a Financial Services organisation this could involve staff, customers or other stakeholders. An idea management platform fuels and facilitates innovation by encouraging a crowd to share their ideas and suggestions and ensures that no idea ever gets lost. But there is a clear need for the industry to open itself up and address the perceived barriers to innovation and deployment of such tools.

Innovation barriers: security

It is a challenging time for the Financial Services industry. Regulation and mitigating risk are on-going concerns, as well as managing the continued economic uncertainty. Maintaining compliance in such a highly-regulated environment is also a challenge and with all this to deal with they also need to retain and grow customers and reduce operational costs.

Introducing new products and services that might help with some of the issues above, isn't easy. The [FCA](#) can intervene at any stage of a product lifecycle, from the initial idea development onwards, and can prevent the introduction of products that could be seen as damaging or unfair to the consumer.

Such regulation means more transparency of all processes is required, especially when related to product development. This puts pressure on providers to change internal systems and use much stricter controls on product development and sales. It will also force them to adopt more effective risk management strategies that oversee product risk and suitability.

So it is easy to see why a bank or other provider may feel that introducing a new innovation, and the time required to get to that point, is a struggle. Meeting regulatory standards is more of a priority than the actual development, marketing, selling or servicing of products. But innovations do not have to be major product launches. Sometimes the smaller ideas can have the biggest impact and idea management is suitable for generating ideas of all sizes, while also providing the transparency that would be demanded by compliance.

When dealing with private and sensitive financial information, it goes without saying that information must be kept secure. But regulation doesn't exist to stop the generation of ideas and the right idea management platform is as secure as any FS organisation would need.

Innovation barriers: intellectual property

Intellectual property is a thorny issue in most industries, but perhaps even more so within Financial Services. The last few years have seen a number of high profile cases involving IP theft from FS firms, most notably when a former Société Générale trader was sentenced to 36 months in prison, found guilty of theft of trade secrets after stealing proprietary computer code the company's high-frequency trading system.

More often though, there will be a civil rather than criminal case. But even more common is for the firm in question to drop the case entirely, worried about damage to their reputation. This means that most FS firms are hugely protective of their IP and do the utmost to ensure they have the required legal measures and controls in place to do so.

But there are measures to be put in place that can protect IP. A professional idea management platform will allow the posting of questions and challenges anonymously to an open innovation community. This can continue until all participating organisations are willing to collaborate formally and then contracts can be signed where appropriate.

Patent acquisitions can also protect an FS firm if they are really concerned about IP but still wish to develop that innovation over an idea management platform. This offers the maximum protection versus alternatives such as proof of anteriority, that do not permit full prosecution if your rights are infringed.

Perhaps the most important point to consider though, is what would the actual implications be of an idea being stolen? Taken to the full conclusion, would a new product or service copied by a competitor based on your IP really lose you competitive advantage? In most situations being first to market is key and someone copying you after that wouldn't make too much difference.

Future innovation

Many of the reasons that Financial Services firms cite for not embracing innovation do not stand up and much of the reluctance is due to a general conservatism in the industry. But we live in different times and there is now a far greater need to innovate and cast aside worries about security or IP.

As a concept, the crowdsourcing of ideas, just works. Of course getting a number of people to contribute their years of experience, expertise and creativity is going to deliver better results than restricting that to just a few. Deploying the right technology to harness and channel those ideas effectively, can be the difference between an idea being brought to market or remaining undiscovered in someone's inbox.

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