Unlocking Opportunities in the Age of Digital Finance

By Massimo Massa , INSEAD

Fintech and techfin innovations are opening doors for traditional players to reinvent themselves.

Emerging technologies like big data, AI and blockchain are reshaping finance. New products, such as platform finance, peer-to-peer lending and robo-advisory services, are examples of this transformation. These developments raise important questions: How concerned should traditional financial institutions be? What strategies can fintech and “techfin” (technology companies that move into financial services) disruptors adopt to secure their place in this evolving landscape?

There are two main threats to the traditional finance industry. The first comes from fintech companies. These firms offer specialised services, such as cryptocurrency-trading platforms like Robinhood or currency exchange services like Wise. Their strength lies in solving problems that traditional banks and wealth managers have yet to address or have chosen not to address given their cost and risk implications.

The second threat comes from techfin giants like Alibaba, Tencent and Google. These companies already have vast ecosystems of clients. They aren't just offering new technology – they are providing financial services that compete directly with traditional banks. By leveraging their existing customer bases, they are gaining ground in the financial sector.

A common problem for traditional players is their belief that technology is simply a tool for improving efficiency. Banks often adopt digital solutions to compete with fintech and techfin firms, thinking that faster or cheaper services will suffice. However, this approach is flawed. It's like putting an old product in new packaging. These disruptors aren't just offering faster services – they're solving needs that traditional banks are overlooking.

Evolving client expectations

One area where traditional players have fallen short is meeting the needs of investors who can't afford the high entry costs set by banks. Fintech and techfin companies have successfully targeted these overlooked groups.

A prime example is Alibaba's Yu'e Bao. It revolutionised stock market participation for millions of retail investors in China. Traditional banks set high transaction thresholds, effectively shutting out smaller investors. Yu'e Bao, however, saw the potential of pooling the contributions of millions of small investors. This approach allowed them to create a massive fund that allowed these individuals to access the markets. Traditional banks had missed this opportunity. The equivalent of Alibaba's Yu'e Bao in a decentralised ecosystem is robo-advisors, which create financial inclusion for otherwise neglected retail investors.

These examples show that disruptors aren't just using new technologies. They are changing the game entirely. By rethinking how financial services are delivered, fintech and techfin firms are offering access, flexibility and affordability in ways traditional institutions have not.

What can traditional players do?

For traditional financial institutions to remain competitive, they need to change their strategies. First, they should consider slimming down. The era of universal banks that try to do everything is over. Customers no longer want one-stop-shops – they seek tailored solutions.

Second, instead of offering only their own products, banks could bundle them with those of other providers. By acting more as advisors than product pushers, they can add value to clients. Rather than compete directly with fintech or techfin firms, banks could collaborate with them. Offering a diverse range of solutions would build trust with clients.

Finally, banks must stop demanding exclusivity from clients. Today’s customers prefer a multi-channel approach. They want the freedom to select from a variety of services across different platforms. Banks need to stop “locking in” clients with high exit fees and transaction costs. Instead, they should retain clients by offering real value. When clients feel free to come and go, they are more likely to stay because they know they’re receiving unbiased advice and products that meet their needs.

This would require taking an “open-platform” approach that focuses more on pulling customers in because they are attracted by the benefits of the ecosystem than locking them in or gating their exit. It is akin to Microsoft’s switch from a closed-source to an open-source model.

Do fintech and techfin have the winning formula?

While traditional players face their own challenges, fintech and techfin companies must also stay sharp. Though they excel at creating niche services, these disruptors often lack a broader understanding of the financial ecosystem. Many fintech and techfin firms are highly specialised. They know their products well, but they may not fully understand their competition or how to position themselves in the larger market.

For these disruptors, the key to long-term success lies in collaboration. By learning more about traditional players – and even partnering with them – fintech and techfin companies can position themselves for sustainable growth. Whether through alliances or by filling service gaps in traditional banks, fintech and techfin firms can benefit from a better understanding of their competitors and partners.

Learning from disruption

In a world of rapid technological change, financial professionals are seeking structured ways to navigate this evolving landscape. Programmes like **INSEAD’s Strategic Management in Banking** (SMB) offer a mix of theory and practical experience, helping participants understand current trends in the industry.

For example, SMB includes simulations that reflect real-world challenges. In one, participants work through a risk-management scenario using quantitative tools. In another, they engage in a leadership simulation that focuses on asking the right questions and understanding the numbers behind a buy-over deal. These experiences help bridge the gap between theoretical knowledge and practical application.

Equally important are the networks built through such programmes. With participants coming from traditional banks, fintech and techfin firms, the environment encourages collaboration and mutual understanding – both of which are crucial in today’s interconnected financial world.

The next big wave in finance

Looking ahead, the next wave of disruption is unlikely to come from more advanced technology. Instead, it will likely stem from changing relationships between banks and their clients. The competitive advantage of traditional institutions will not come from technology alone. While price efficiencies are necessary, they are not enough.

What will set successful banks apart is their ability to connect with clients on a deeper level. Technology may speed up transactions, but it cannot replace the trust and human connection that are central to financial services. As behavioural finance continues to grow in importance, banks can move beyond managing money to managing client behaviour. Helping clients overcome biases that hinder their financial decisions will be key.

In the end, it’s not just about how fast or how efficient your services are. The future of finance lies in blending innovation with the timeless principles of trust, advice and human insight. Both traditional players and disruptors will need to find that balance if they hope to thrive in this new era.

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