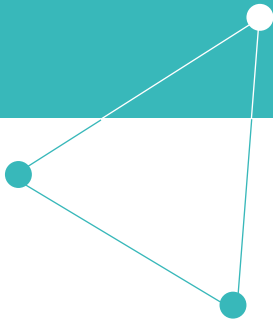
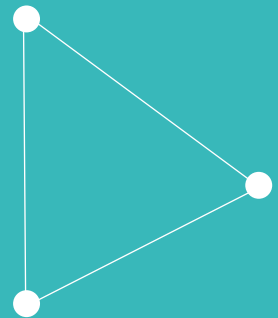




# The current market for **technology** in financial services

May 2020



# Introduction

**There is no shortage of speculation on fintech and its place in the Fourth Industrial Revolution. For financial services, the changes have already been seismic, and the consequences are seeing a total reconfiguration of the way that the sector is structured, thinks and operates.**

To use a much-used expression, the delivery of financial services is being completely 're-imagined'.

The essential competences required of any technology developer or consultancy in the fintech space, which looks to partner effectively with either long-term players or new market entrants, go well beyond a unique technology stack.

Achieving market success will depend on an exacting skillset:

- Proprietary digital technology, wide capability and deep resource
- Proven financial regulatory experience and competence
- Intelligence mechanisms providing continuous reading of social trends and the ability to help anticipate end-user expectations and behaviours

The intention of this paper is to place these competences into a wider context. It draws from the content of selected published exhibits which, for the most part, are reports and commentaries prepared by leading management consultancies. They make compelling reading, and what has perhaps been most interesting is their uniformity of view. A bibliography of these documents can be found at the end of this paper.



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# The shock of the new

**The scope and rate of change in financial services are bewildering. Nothing will ever be the same.**

For most financial institutions, we are looking at a perfect storm of disruption: furious innovation; a legion of new market entrants; technology modernisation; an ever-increasing need for more robust cyber security; the potential for greater automation; the acceleration of disintermediation (PSD2, Open Banking and 3<sup>rd</sup> Party access); a host of new money market instruments; and the continuous changing of the regulatory framework as well as mandated change. The whole notion of financial services delivery is changing fundamentally. If there were clear lines of separation between financial institutions, fin-techs and technology companies, they are fast disappearing.

There has been an explosion of competition and choice for customers, who themselves become ever more demanding and expectant in the way service providers can serve their financial needs and expectations. No longer do we live in an age of authority; we live in an age of consent.

What is more, a multiplicity of providers (new and old) are making it easier than ever before for customers to explore omni-channel offerings, a portfolio of services from different sources, seamless service connections, and to appreciate enhanced propositions with huge improvements in customer service and sensibility.

Changing to meet these challenges is not just about new technology, it's about new attitudes and new philosophies, processes that are totally re-engineered and strategies that are completely re-thought. It also means thinking, what was not long ago, the unthinkable.



# Terra Incognita

**In spite of having lived with the consequences of change for many years already, this is still a dystopian landscape with which many traditional financial services companies find it difficult to come terms.**

It's now a different game which has a different culture. It is played on a new pitch (or many pitches); it is constantly in motion; and it is governed by rules and regulations that keep changing.

It is no longer safe space for a sector which has prospered on certainty. There is now no status quo.

No longer can reliance be placed on institutional reputations and the obedience of compliant customers. A new world is being created which offers radical realignment—front-end providers delivering better customer experiences; specialists creating products and functionality which have never been seen before; and behind it all a new generation of infrastructure giants. And all of them operating in a new integrated financial services market.

Then there is looming approach of equivalents to the Super (or multi-purpose) Apps of China and the Far East.

WeChat and Alipay have grown well beyond their original purposes to serve a broad range of customer life and lifestyle needs—financial services particularly. Although we may not yet have seen mobile development on the same scale in the UK (due possibly to a wider spread of platforms used or marginally less dependence on smart phones), the unmistakable disruption and wider ambitions of Amazon, Uber, Facebook, Google, PayPal and others, as well as the rise of unaligned personal financial management platforms (like Money Dashboard), add to the pressures on all financial services providers.

In spite of the inevitable conundrum of whether or not to abandon short term value at the expense of longer-term (and sometimes fanciful) vision, there is a critical need for wholesale change, not just the inadequacy of patchwork upgrading or limited, controlled fixes.



# The rise of the machines

**The stark difference between new entrants to the financial services market and those who have been on the scene for generations is that they start with philosophy and not with products—the ‘why’ rather than the ‘what’. They have also started out in carefully measured ways, focusing on a niche or a need and, only after, their concept has been proved do they look to add scale and widen the offer. They start with easy wins and specifics in the aggressive pursuit of customer acquisition, and then move into more general areas having established belief, trust and loyalty.**

They have no history and no baggage. They are not encumbered by legacy systems, technology, protocols, policies, attitudes and most importantly perceptions. They tend to have backers looking to play a long game to profit, rather than institutional investors expecting regular, short-term positive results.

This is why smart money has been put behind ventures like the Amazon Card (J P Morgan), Amazon Lending for small businesses (Bank of America Merrill Lynch) and Apple Card (Goldman Sachs). It means they have the luxury of thinking in years potentially rather than in quarters.

This has also allowed them the space to think outside the box, to cherry pick opportunities, and to entertain unconventional—even dangerous—thinking. It means they can be smarter, more intuitive and certainly more customer-centric.

The worst kind of enemy (apart from an enemy you can't see) is one which doesn't have your limitations, one which doesn't know (or care about) its own limitations, and one you can't always predict.

To borrow from the old Chinese curse—financial institutions are living in interesting times.



**“The worst kind of enemy (apart from an enemy you can’t see) is one which doesn’t have your limitations, one which doesn’t know (or care about) its own limitations, and one you can’t always predict.”**



# The age of experience

**The revolution of change has not gone unnoticed by end-users who are looking for better experiences.**

After generations of virtual servitude to major financial institutions—following their protocols, playing by their rules—customers with rising expectations now find themselves in a far better position to choose. Rather than stay with one long-term provider, they are more at ease trusting and engaging with a range of products, services and businesses largely unknown 2-5 years ago.

New market entrants have proved more much adept at creating the sensibility that they empower their customers and genuinely meet their needs—sometimes these are needs they didn't actually realise they had. These providers seem also to have helped demystify financial services. They are no longer seen as dark arts hidden behind an exclusive curtain of specialism but as prospective better experiences which can facilitate their lives and present them with new but relevant opportunities.

They have swiftly embedded themselves in the lives of customers with rising expectations, who have been well-trained in comparison (through aggregation) and are quick to reject and publicly call out poor performance.

As Harit Telwar, Managing Director of Marcus Bank (Goldman Sachs) succinctly put it:

**“Innovation works when you use technology to actually help customers”**

## Who are these customers?

Demography and time are also on the side of the disruptors. Although the undoubted wealth of older generations remains dominant in most markets including financial services,

Digital Natives—particularly Millennials—are becoming increasingly important. It may be a cliché, but they are the future.

Although the Baby Boomers and Generation Xers may also be excited by and embrace new technology, the Digital Native generations will determine the future success of businesses in financial services. They are less reliant on traditional providers and less convinced by long reputations of capability which were already irrevocably damaged by the 2008 banking crisis.

They hold brands and businesses to account through high scrutiny and continuous challenge, far more than previous generations. They are impatient with products, services and providers that don't appear to be offering greater customer-centricity, an evolution in their thinking and a focus on delivering better, smarter, faster, cheaper, more intuitive experiences.

Like new entrant businesses they are attracted to, they will also cherry-pick as they select offerings that they think they want and widen their provider portfolios. If the service and the experience are good, they will be vocal advocates and recruit their peers through direct and social channels. If the service and the experience are poor, they will be equally vocal in their displeasure. Or they may just move on to the next opportunity. Whatever the case, their data and behaviours become accessible, feeding technology advances, new protocols and NPD.



# Staying Alive

**All financial services players, including new entrants as well as well-established companies, will need to be continuously sensible to both the many threats and the many opportunities.**

For new entrants, it is a question of identifying the right niches to get a foothold in, having the nous, the backing and the resources to capitalise on the opportunity fully, and then to sustain momentum with relevant development and expansion.

For the well-established (those with history), it is far trickier.

Understanding and being driven by customer needs is vital, as is recognising the need to be more adaptable, more flexible and more agile. These should inform many of the decisions that have to be made:

- Being prepared to re-imagine the future and forward strategy
- Making the shift from reactive provider of products to proactive and predictive deliverer of services
- Getting the balance between long-term vision and short-term value right (whilst being able to distinguish between the necessary and the fanciful or indulgent)
- Rethinking service architecture and operational frameworks
- Knowing whether simply to update and risk legacy drag or to embrace total transformation

It is interesting to see the approaches of organisations as they look to become all-court players by challenging in new areas and going through varying processes of repositioning and reinvention.

RBS/NatWest offers an example of adaptation, capability building, investment and partnership. It is not always successful but shows some breadth of thinking:

- Loot (acquisition)
- Bó –digital bank (a struggling development)
- Mettle –SME digital bank (development)
- Starling (partnership)

Whether these plays will be successful ultimately, remains an open question. As featured in The Sunday Times on 22<sup>nd</sup> March this year, the big questions is “Can the dinosaurs of banking evolve?”

[<https://www.thetimes.co.uk/article/can-the-dinosaurs-of-banking-evolve-cfssr223z>]



# Cometh the hour, cometh the man

**New thinking technology companies like Enginef offer advantages beyond their pure technology capabilities and the evidence from the market suggests clearly that success will require more than just digital superiority.**

The ability to deliver the three competences outlined at the beginning of this paper will be fundamental:

- What can be done—technology
- What must be done—regulatory
- What should be done—customer

The evidence also suggests the importance of being able to identify and work with:

- Existing players with evident issues and the need to change
- New players seeking to meet the needs of customers in new ways and to exploit perceived gaps

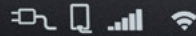
As well as creating better digital systems and more customer-relevant services and experiences, technology companies should ideally be able to consult and advise on a range of strategic areas before any practical work begins: likely consumer behaviours and the anticipation of future need (through e.g. predictive analytics); what to change; what to scrap; where gaps exist; and what to create. A task for the calm professional who is capable of being radical and revolutionary, and with an appetite for dangerous re-imagining!



**“Technology companies should ideally be able to consult and advise on a range strategic areas before any practical works begins”**



10:45 am



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Summary

Media

Power

Remote



Checking for new update ... .. ✓

The new OS update is available.

Press update button to download the file.

Download and install the software  
will spend 25 mins.

You can press Cancel button to update later.

Check for Update

Update

Cancel

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**[Richard Bates, Independent Consultant, for Consumers International]**

How and why FinTech is transforming financial services markets for consumers, and to understand what the implications—both positive and negative—are, as FinTech services and products start to become widely used. It also offers some thoughts on how those working in the consumer interest might address some of the emerging consumer protection issues.

[www.consumersinternational.org/media/154710/banking-on-the-future-full-report.pdf](http://www.consumersinternational.org/media/154710/banking-on-the-future-full-report.pdf)

## **Fintech and banking: What do we know? (January 2019)**

**[Anjan V. Thakora in the Journal of Financial Intermediation]**

“A review of the literature on fintech and its interaction with banking. Including innovations in payment systems (including crypto currencies), credit markets (including P2P lending), and insurance, with Blockchain-assisted smart contracts playing a role. Provides a definition of fintech, examines some statistics and stylised facts, and then reviews the theoretical and empirical literature.”

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## **Navigating the rising tide of uncertainty: the 23rd PwC Annual Global CEO Survey (2020)**

**[PwC]**

What is clouding the view from the top? In a word, uncertainty. PwC's 23<sup>rd</sup> Annual Global CEO Survey, which involved 1,581 chief executives in 83 territories, explores the sources and manifestations of uncertainty and how CEOs are taking action to address it.

Conducted in September and October of 2019, this survey focuses on CEO insights in the following top-of-mind areas: growth, technology regulation, upskilling and climate change.

[www.pwc.com/gx/en/ceo-survey/2020/reports/pwc-23rd-global-ceo-survey.pdf](http://www.pwc.com/gx/en/ceo-survey/2020/reports/pwc-23rd-global-ceo-survey.pdf)

## **Synergy and disruption: Ten trends shaping fintech (December 2018)**

**[McKinsey Global Banking]**

The paper outlines ten trends shaping fintech, focusing in particular on the industry's investment potential. It conveys the importance of being selective while investing in fintech companies as the road to success is not easy. It highlights the different attitude taken by Western financial institutions and their Chinese counterparts when it comes to investing in fintech partnerships, attributing the rise of China as a fintech powerhouse to local financial institutions partnering with large technology ecosystems rather than smaller fintech firms, which has resulted in the rapid growth and proliferation of Chinese technology giants such as Ant Financial, Alibaba, Ping An and Tencent.

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## **FinTech in 2020: Five Global Trends to Watch (January 2020)**

**[CB Insights in partnership with Mastercard Start Path]**

“FinTech start-ups are moving out of niche use cases and are beginning to operate at scale. Where they once catered to specific demographics, the sector is now providing services across the financial services value chain — to all demographics, in a much larger playing field”

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## Financial Services Technology 2020 and Beyond: Embracing disruption

[PwC 2016]

An examination of the forces that are disrupting the role, structure, and competitive environment for financial institutions and the markets and societies in which they operate.

[www.pwc.com/gx/en/financial-services/assets/pdf/technology2020-and-beyond.pdf](http://www.pwc.com/gx/en/financial-services/assets/pdf/technology2020-and-beyond.pdf)

See also: [www.pwc.com/fstech.html](http://www.pwc.com/fstech.html)

## Banking on the Future: Vision 2020

[Deloitte Touche Tohmatsu India / Confederation of Indian Industry]

Key changes that banks need to make in their go-to market approach, starting with shortening their strategy cycles to months instead of years, getting better at reading signals of change in this disruptive environment, and becoming tactically focused on being operationally lean and agile in response to market conditions.

[www2.deloitte.com/content/dam/Deloitte/in/Documents/financial-services/in-fs-deloitte-banking-colloquium-thoughtpaper-cii.pdf](http://www2.deloitte.com/content/dam/Deloitte/in/Documents/financial-services/in-fs-deloitte-banking-colloquium-thoughtpaper-cii.pdf)

## The future is open. Reshaping the banking experience – 2019 trends in review (January 2020)

[KPMG International]

The consolidation of articles from 2019 includes looking at the pros and cons of updating legacy systems versus taking bolder actions that lead to transformational change. The series paints a discerning picture of the future of the industry and where the greatest opportunities are. The series continues with monthly articles here: <https://home.kpmg/xx/en/home/insights/2020/01/the-future-is-open.html>, taking a deeper dive into how banks can leverage a technological future to reduce costs, become more efficient and remain relevant to their customers.

<https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/01/the-future-is-open.pdf>

## When Vision and Value Collide. The State of the Financial Services Industry 2020

[Oliver Wyman]

"A collision is taking place in financial services between the vision mindset and the value mindset.

How firms resolve this conflict—between the desire to re-imagine the business for the long-term and the need to remain disciplined and profitable in the short-term—will define the industry in the coming years."

<https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/January/Oliver-Wyman-State-of-the-Financial-Services-Industry-2020.pdf>

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The report brings together the views of 25 influential financial services executives involved in innovation, and maps out the activities that established players have identified as necessary to allow them to disrupt their own business model rather than watch challenger models disintermediate them.

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[Findexable]

"The findings are proof of how much, and how fast, old-world economies are integrating with their counterparts in emerging regions. Indeed, the rankings give the first visible evidence that the convergence of 'advanced economies' and new world 'emerging' ones is much more than a feeling—it's actually measurable."

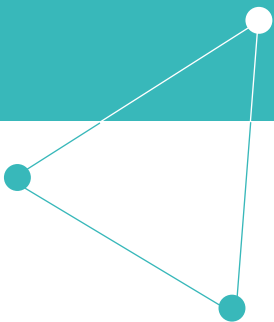
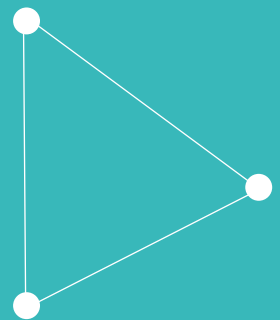
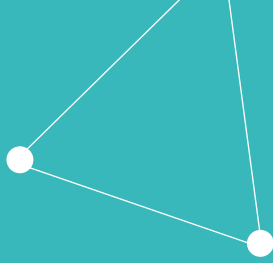
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## Latest Thinking on Financial Institutions (December 2019)

[Boston Consulting Group]

"Technology is dramatically reshaping banks, asset and wealth managers, and other financial institutions. Digital disruption, however challenging, can open the door to new opportunities—but how best to capture them? Explore BCG's latest thought leadership on financial institutions to learn the views of our experts."

<https://www.bcg.com/en-gb/industries/financial-institutions/insights.aspx>



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