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Trends in Financial Services

Key findings from the 2020 report

Growth and change in UK, China, Australia and the US

> As is often said, what's local is now global — and vice-versa. Across the world, financial institutions large and small are reeling from political, legal, and technological shifts.

In the UK, challenger banks are eating into traditional banking — while fending off competition from the continent. Chinese startups have extended their reach in partnerships and direct investments around the world. Australian banking is becoming more digital — a trend likely to continue as fines and regulation takes a toll. And in the US, smaller banks are showing worrying signs amidst the overall growth of the market.

Fintech is taking an ever bigger cut: Accenture research suggests that there are over 18 million challenger bank accounts in the UK (including CYBG, Metro, Atom and Starling), with 40% of those under 25 now multi-banked. With success in the UK and uncertainty about the home market, many are also now turning to global expansion.

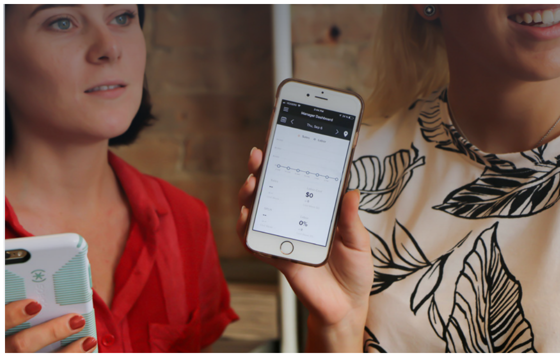
Traditional and challenger banks and financial services in the UK are also looking with trepidation at Brexit. Continental Europe has taken note of potential weakness in the UK, with French and German fintech startups already nipping at the heels of still-dominant London-based institutions. Many expect a much more European flavor by 2021.

China, Australia, and the US (cont.)

Meanwhile, Chinese startups have continued to expand aggressively around the world. New agreements will see WeChat Pay and Alipay accepted around the world, while investments in India and Brazil are starting to pay dividends for traditional Chinese institutions. And rumors abound that the People's Bank of China might launch a digital central bank currency that would overwhelm similar technologies like Libra.

CHALLENGER BANKS

In the UK, the net promoter score of challenger banks averages 62 -- compared to a NPS of 19 for traditional banks.



Australian banking in 2019 was shaken by a number of investigations, culminating in sanctions and massive fines. The nation's four largest banks have set aside over $8 billion to refund customers for this activity, while the Australian operations of several global investment banks are also under scrutiny for separate, potentially illegal activity.

Beyond these challenges, Aussie banks are likely to face a difficult domestic and global environment despite widely expected "open-ended quantitative easing" in 2020. It's no surprise, then, that bank branches are closing at a higher rate than ever, reflecting a "seismic upheaval in the way we spend, bank and shop as generational change and new banking technology add to the online retail havoc already being experienced in suburban shopping strips across the country."

In the US, community banking is facing its toughest year yet as market share for smaller banks continued to decline. According to FDIC data, both asset and liability growth for banks with less than $10 billion in assets trailed the overall industry. On a positive note, return on assets for these banks reached its highest numbers since 2006 — though it trailed the larger banks.

Startups & big tech may not be (as big) a threat

> For the better part of the decade, financial services firms have looked with a mix of fear and confusion at the multiple fintech and large tech firms hyped to be targeting traditional banking and investment services.

In 2019, there was finally some clarity — from leaders at the traditional firms, moves in big tech, and changes in the way fintech partnerships might look.

Much of the initial wariness of tech came out of the realization that consumers were increasingly looking to other industries as a barometer of their financial service firm's digital performance. Consumers expected Netflix, Amazon and Venmo-like experiences from their financial institutions. Fintech firms, seeing the opportunity, capitalized on superior user experience to start to eat into profit margins. Even the giants started to pay attention.

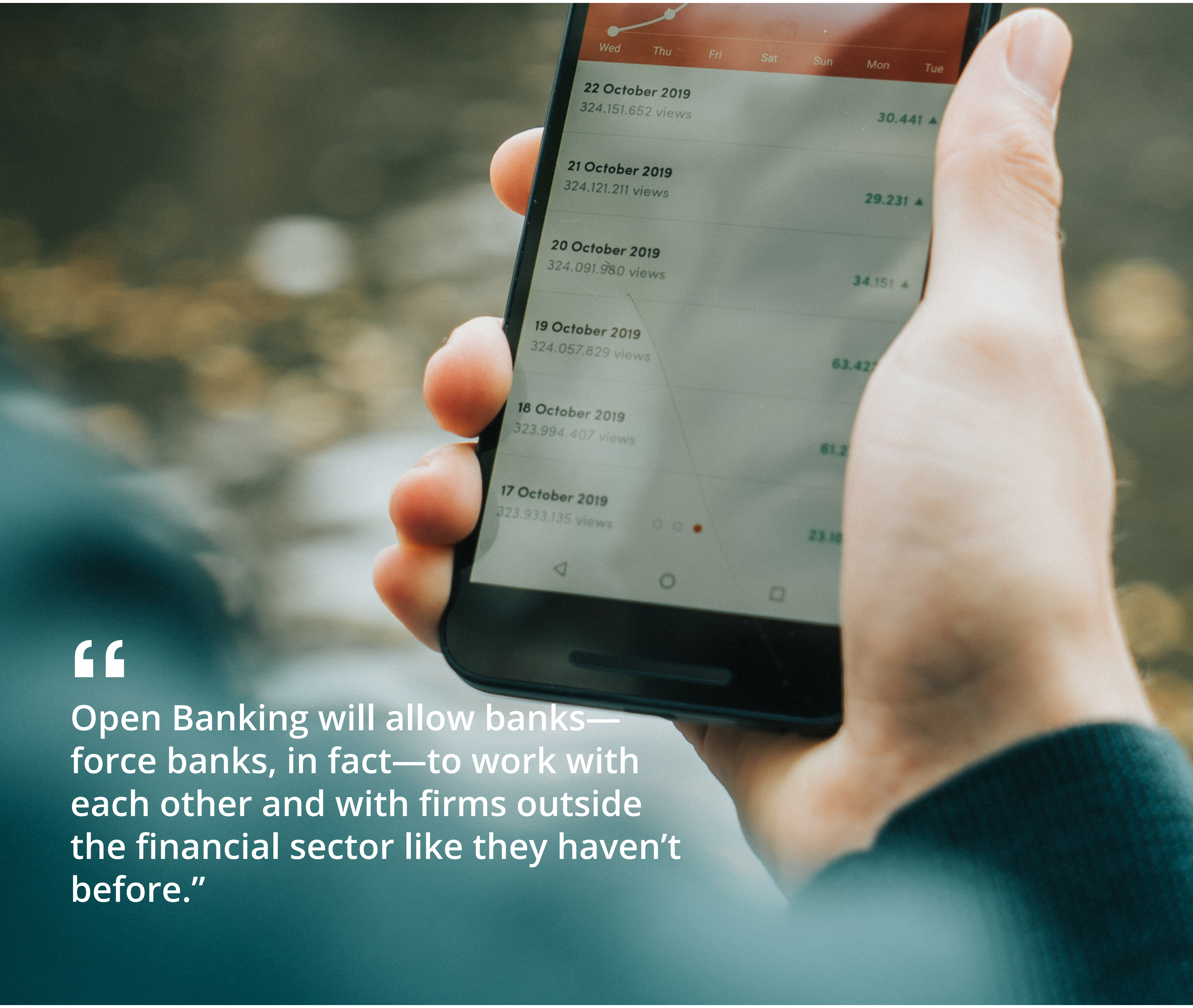
The investment in "digital transformation" was mixed, of course. Much-touted investments in blockchain and artificial intelligence came to naught. In 2019, it did not go unnoticed that almost every bank CEO spent significant time in every earnings call discussing their cloud strategy — while three-quarters of banks in a recent Accenture study had migrated less than a third of their applications to the cloud. But the focus from leadership meant an institution-wide interest in digitization and user experience to combat the growth of young fintech competition.

Startups & big tech (cont.)

The idea of partnering out of competition took a hit in 2019 when OnDeck and J.P. Morgan Chase ended their relationship after only a few years and despite a significant investment. J.P. Morgan claimed to spend about $8 billion on technology in 2015, of course, so it was perhaps inevitable that they build an in-house solution to better compete with OnDeck and its ilk.

Meanwhile, big tech continued to clarify its intentions in the financial services space. In 2019, Apple announced the Apple Card, Amazon rolled out several new financial offerings, Facebook announced Libra, and Google soft-launched its Google Cache checking account. The hostile reaction to Libra from regulators and legislators did seem to give pause to some in tech, but the inevitable growth of these players in the space seemed all but certain.

The growth of Google Cache in 2020 seemed unavoidable, as Google committed to “working with additional partners as we scale the product”. With only two traditional banking partners now, the giant company is targeting new partners in 2020. Many have wondered how Google’s advertising-based, information-harvesting profit model will work in the heavily-regulated, high-touch financial services environment. It seems likely that Google sees its banking partners as adding the human touch, while Google provides a slick UX— and gains access to considerable new data on consumers.



"Open Banking will allow banks—force banks, in fact—to work with each other and with firms outside the financial sector like they haven't before."

Omnichannel Experiences

> No one ever asked for chatbots.

Though new technologies have opened doors for financial services professionals, some did not sufficiently consider the human at the end of the phone or the keyboard before they were implemented. Good customer experience provides an omnichannel experience, nudging the user with helpful insight without getting in the way.

While omnichannel strategies have been discussed since the early 2000s, technology has finally provided a way for some success in the 2020s. Most consumers look online, offline and on social media before investing in a product or service; financial services are therefore uniquely positioned to exceed expectations at each

WHAT'S THE HOLD UP?

According to a report from Capgemini's Digital Transformation Institute and MIT Sloan School of Management, digital transformation can be stalled or fail for several reasons: poor leadership, the disconnect between IT and business systems, unengaged staff or mediocre operations.

Another pitfall can be a focus on cost-cutting instead of the customer experience. Without adequate tracking, it can be difficult to measure the ROI of digital transformation. The impact of positive customer experiences on ROI can and must be measured. Companies must do so to prevent the rapid growth of such tools, which can become a true infestation without measurable success parameters.

Banking as a platform: less vertical, more horizontal

Mirroring other businesses in the early twentieth century, many financial services firms focused on vertical integration. The vertically-integrated bank, it seemed, could control "everything from the regulated balance sheet to distribution."

Like Standard Oil, the idea did not age well. But bankers held on.

By 2019, however, cracks were evident. "Vertically integrated companies simply weren't as efficient as their specialized counterparts," noted an article in International Banker. "Open Banking will allow banks—force banks, in fact—to work with each other and with firms outside the financial sector like they haven't before."

Financial services firms around the world showed an innovative new spirit in 2019. Many announced that they would build core banking systems in partnership with third-party providers. Westpac and JP Morgan Chase both took equity stakes in 10x Technologies to build "banking as a service" platforms. And Fidor Bank in Germany white-labeled its entire digital banking platform to O2, Telefónica Deutschland, focusing instead on its core competencies and allowing O2 to act as a physical retailer.

2019 may have been the year the system building truly started and the move away from vertical integration finally took off. The inevitable shift to cloud-native core banking platforms seems well on its way.

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> Major new opportunities have blossomed thanks to Open Banking and digital transformation efforts. Financial services firms have more data — and the tools to understand and act on it — than ever before.

The result? Financial services are moving at pace with the rest of industry in one critical area of the customer experience: effective, robust personalization. And in the decade to come, that will mean more than just knowing the first name in a bulk email. Your relationship with consumers will finally transform from transactional to truly personal.

With critical differentiators from products and services proving more challenging in a hypercompetitive environment, many firms are looking to customer experience as a key difference. According to Salesforce, 62% of consumers expect companies to adapt based on their actions or behaviors. (The same study found that only 47% of consumers believe they are receiving this level of personalization today. And it's easy to believe that number is much lower for financial services.)

More than two-thirds of companies in any sector now compete primarily on the basis of customer experience – up from only 36% a decade ago, according to Gartner. Many financial services firms now look to take advantage of artificial intelligence tools. Once focused only on security and auditing, this technology now provides advice and recommendations based on behavioral and transactional data. Mobile banking apps or text messages will prompt consumers with intelligent, contextual recommendations. This increased emotional engagement can lead to increased opportunities and revenues for the service provider.

In 2020 and beyond, financial institutions will need to invest in customer experience. And they'll need to utilize this data effectively, collecting and analyzing customer feedback across the entire customer journey to build a contextual response. At a time when customers are obsessed with privacy and security, relevant, personal insights will form the basis for a value exchange customers will depend on.

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