WHITEPAPER

A WHITEPAPER ON

Financial Services in the Digital Future: Challenges and Tips

EXECUTIVE SUMMARY

CRITICAL CHALLENGE 01

Customer preferences are changing the way banks have to operate.

Customers prefer banks that have a simple and easy digital banking experience.

TECH TIP #1

Banks are opening mobile channels, changing customer experience, and are seeing increased revenue as a result

CRITICAL CHALLENGE 02

Financial institutions are 300 times more vulnerable to security threats than any other business.

Security threats cost financial institutions up to $28 million a year.

TECH TIP #2

New technology like blockchain can design systems that are hack-proof and tamper-proof.

CRITICAL CHALLENGE 03

Disruptors and innovators entering the industry, including the fab four – Amazon, Google, Facebook and Apple.

The disruptors are using big data analytics and insights to create new financial services like micro lending and payment apps.

TECH TIP #3

Banks need to partner with the disruptors to act as services-dispensing portals.

CONCLUSION

With a paradigm shift in business model, culture and process, financial institutions are among the prime candidates for Digital Transformation. They need to:

- Align their digital initiatives with their strategic goals
- Undergo a cultural shift where everyone thinks digital
- Function more as an eco-system

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How can financial institutions understand the technology disruptions in the industry and grab the initiative through Digital Transformation? Read on to know more about the critical challenges they face, and how digital technologies can help.

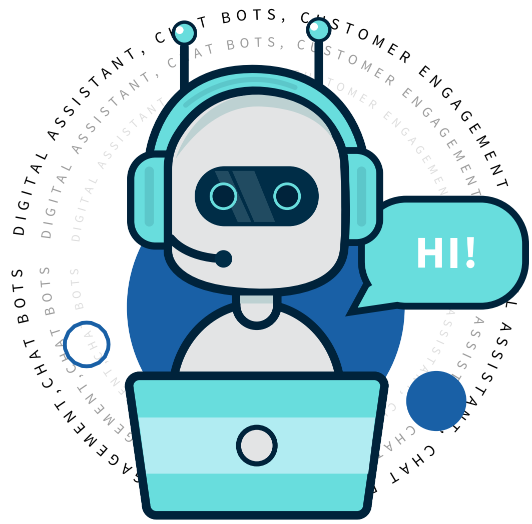
Critical Challenge #1:
CHANGING CUSTOMER PREFERENCES

Customers *rarely visit physical locations, preferring to use digital banking services* for most of their needs. The *Consumers and Mobile Financial Services* report finds 43% of all mobile phone users with a bank account, using mobile banking facilities to check their account balance and transfer money, with the key demographic being millennials. *Bank of America, Citigroup and JPMorgan* have been shutting down hundreds of their branches, preferring to promote mobile banking as it cut costs by 90% and increased revenue by 72% when compared to brick-and-mortar operations.

It is estimated that over 1.75 billion people will be using mobile banking service by 2019, especially millennials. These emerging customers prefer transacting with companies that have enhanced user interfaces, simplified forms and personalised content and products.

TECH TIP #1

Banks are developing their mobile and online portfolio to increase customer engagement. **61% of banking customers expect to increase their online interaction as over 67% of banking customers show a preference toward choosing banks that have a simple and easy digital banking experience.**



DT IN ACTION
CHANGING CUSTOMER EXPERIENCE

Santander Bank strived to improve its customer experience by *redesigning the in-branch account opening process* by using an integrated, paperless, end-to-end process. It involved reducing clicks and prompts, consolidating screens and using OCR software to automatically scan and convert ID cards into text strings. This resulted in the process time being reduced to two minutes, increasing customer satisfaction levels by 10%.

Bots and digital assistants are another way for banking companies to personalise and increase engagement with their customers. Bank of America (BofA) has introduced its own *digital assistant – Erica.* Erica's features include voice or text chats, predictive messaging of products and offers, and an interface for providing rich content of educational videos. BofA is hoping to tap into its large base of mobile and online banking information to perfect Erica's AI algorithms to get better results.

Critical Challenge #2:
DATA THREATS, FRAUD PREVENTION AND PRIVACY PROTECTION

Cyber security concern is second only to regulatory concerns in the financial services industry. Financial services companies are extremely vulnerable to attack, *being 300 times more likely to be subject to security threats than other businesses* and, on average, cost financial services companies close to $28 million every year.

The scope of cyber security for financial service companies would extend to the protection of digital assets, protection of data in third-party cloud storage, on-boarding and authenticating customers securely, and proactive monitoring for threats. With such a broad range of areas to be covered, it is imperative that cyber-security is embedded into their system and products. Top American banks *have budgeted over $1.5 billion to fight cyber-crime*. However, we feel such spending cannot be sustainable in the long term and companies would need to find innovate and cost-effective solutions.

"I am convinced there are only two types of companies: those that have been hacked and those that will be."

Robert Mueller
Former FBI Director

Companies will be under constant attack from hackers and it can get overwhelming especially if there are legacy systems to manage.

DT IN ACTION

USING BLOCKCHAIN

Distributed Ledgers: Blockchain technology (of bitcoin fame) has numerous business applications of special relevance to the financial services industry. Imagine a distributed ledger system that records and manages transactions without a central clearinghouse using peer-to-peer database technology. The system is designed in a way no single computer or a group of computers can take control of the system, making it immune to attacks or tampering. In addition, every transaction is unique and stored in one shared electronic ledger.

TECH TIP #2

Start investing in technologies that keep the business and the customer data safe. Citibank is lab-testing its internally built blockchain for international payments. *Nasdaq Linq* is a digital ledger, built on the basis of blockchain methodology, to manage the shares of privately held companies. Linq digitizes and maintains comprehensive historical records of the issue and transfer of securities, enabling a strong audit trail and making transfer of ownership easier and reliable. IBM is using blockchain based technologies to push cross-border payments *with the system being used in twelve currency corridors already* between the pacific and the UK.

Critical Challenge #3:
DISRUPTORS AND INNOVATORS

While traditional banks and financial institutions have built large customer bases and have deep regulatory expertise, with new products and technologies, we find emerging fintech startups as potential disruptors. The fab four of the tech world – Google, Apple, Facebook and Amazon – have been showing interests in different degrees to enter the financial services markets. While all of them have payment apps, Amazon in particular has been *financing small businesses registered on their site to the tune of $1 billion*. An invite only program, loans are provided from as little as $1000 to as much as $750,000 with varying interest rates. Amazon has been successful in this space, since it possesses tons of data on the e-commerce sector and has the capability of mining it for analytics and insight. Google, Apple and Facebook have similar advantages and while regulatory challenges loom ahead, we could see them dominating the lending space, opening up new markets of personalized credit and targeted lending using big data analytics.

Besides issuing small credits, disruptors are also changing the method of assessing credit-worthiness. Instead of relying on credit reports, *startups like Affirm, Zest and InVenture* are using unusual metrics such as smartphone app usage, call logs, SMS logs, and social media to assess credit-worthiness and extend credit, specifically to purchase products from e-commerce sites.

DT IN ACTION
BUSINESS MODEL TRANSFORMATION

BBVA is a Spanish bank recognized as a global leader in digital innovation. It acquired Portland based start-up BankSimple in 2014 for $117 million. An online mobile banking platform, Simple has an intuitive interface allowing you to easily transfer money, budget for different expenditures and show you the amount of money that is "Safe-to-spend." It allows you to add notes, photos or hashtags to your purchases. The year before it was acquired, Simple grew at 330% with 100,000 customers and an annual transaction value of $1.7 billion. Through the acquisition, BBVA is hoping to leverage Simple's technology to cater to its large customer base.

TECH TIP #3

Banks will have to understand the implications of these new open-source platforms and how they impact a bank's core business. Banks should look to partner with fintech start-ups and act as a portal to beam out innovative financial products to their core customer group.

CONCLUSION

HOW CAN DT HELP FINANCIAL INSTITUTIONS PREPARE FOR THE DIGITAL FUTURE?

Digital initiatives are estimated to generate $2.6 trillion in additional revenues as of 2018. To earn, banks will need to ensure the **alignment of digital initiatives with their strategic goals**. This will involve placing intelligent bets on technologies such as Artificial Intelligence, Machine Learning, Blockchain, Cloud Computing, cyber security initiatives and more. Moreover, as data becomes more public and prone to attacks, data security and integrity must become a priority. As banks look to stay competitive, they must embrace new business models and allow partners to connect and distribute through their ecosystem.

Adopting these technologies is not as simple as it seems. Banks need to **undergo a cultural shift where the organization thinks and acts digital**. It would require banks to streamline their data collection and strengthen their analytics function and AI capabilities. The greatest challenge for banks would be to attract the right talent and identify the technology partners to fill the vacuum.

Banks of the future would be functioning more as ecosystems, where they build platforms over which start-ups or other enterprises can build their products and services. Banking-as-a-Service and Banking-as-a-Platform would be the business models of the future and banks need to ramp up their technology quotient to survive this changing landscape.

Suyati is a fast-growing, digital transformation solutions company that helps you rebuild your customer experience for the digital consumer. We collaborate with businesses to strategize and implement impactful digital initiatives that position our clients ahead of the competition. We are digital-first and we focus on delivering digital transformation solutions that support your various engagement strategies.

Our three-phase approach to implementing digital transformation for you ensures that you win stakeholder support, secure early wins through competitive advantage, and transform your business for future growth. And our tailor-made platform, Mekanate, helps you discover your business DNA from your passive and active data, and use it to initiate, integrate and accelerate your DT implementation.

With our niche and rich expertise in a wide range of technologies and services - CMS, CRM, e-commerce, Cloud, IoT, Data Analytics, and Product Engineering - we help companies across the globe leverage their best on web/cloud/mobile platforms.

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