Financial services report and trends radar: understand how digital is disrupting the industry 2015

Brilliant Noise

Financial Services
Trends Report
2015

Executive summary

Where is the next disruptor or challenger brand going to come from? For leaders in financial services, this is one of the most important questions they can ask. With change and digital innovation everywhere, clients are faced with the constant challenge of where to invest attention, time and resources.

"No sooner have you understood what big data might mean for your business than someone is asking how bitcoin might fit in. As soon as you think you have a handle on bitcoin, you realise the technology powering it - blockchain - could bring about a wave of disruption as big as price comparison engines, or even the web itself. Where should you be looking for change? Is a trend something to simply be aware of - or should there be a team analysing it or developing pilots to test its potential? These challenges are addressed in this report".
Antony Mayfield, CEO, Brilliant Noise.

Brilliant Noise has created a high-level survey of some of the most interesting technology and innovations in financial services and plotted these on the Trends Radar for business and marketing teams to use themselves. It clearly maps innovations that require action now; to those that should be analysed for the near future; to ensuring the business is aware of nascent technologies coming into the fore.

The executive findings and recommendations of the report are summarised below:

1. Use the Trends Radar
- Use the radar framework of mapped trends as a starting point for planning.
- Apply it to filter the noise around digital and work out what needs to be a priority.

2. Focus on delivering a brilliant CX
- Look at how new digital technologies can improve the customer experience, especially those that simplify a service. Don't think of them just in terms of the money and time it can save your business.
- Create more customer centric services. They drive advocacy and will be more valuable in the long term.

3. Be open to new ways of doing things
- Embrace new technology, new processes and new models.
- Trial and prototype. Pilot and scale.

4. Act more like a startup
- Change your culture now. You won't deliver digital transformation tomorrow with the culture and processes that exist today.
- Take inspiration from startups: be more agile and open to failing; learn from your failures and iterate faster.

Introduction

How long can major industries resist the disruptive influence of digital technology?

The financial sector has been cautious - sometimes resistant - when dealing with the relentless change and uncertainty brought on by the digital age. But consumer need and behaviour is changing the industry's landscape.

- *In the UK, people are using their smartphones for over 41 hours a month, accessing them an average of nine times a day.[1]*

- *14.7 million banking apps have been downloaded .[2]*

- *£1.7 billion is transferred each week via mobile banking apps.[3]*

- *Spending on contactless cards trebled in 2014, reaching a record £2.32 billion.[4]*

In this report, we've highlighted the trends that are shaping the financial industry. These are the trends you need to act on now; the trends you need to analyse to understand their imminent impact; and the future trends you need to be aware of.

1. http://www.nielsen.com/us/en/insights/news/2014/how-smartphones-are-changing-consumers-daily-routines-around-the-globe.html
2. https://www.bba.org.uk/publication/bba-reports/its-in-your-hands-2/
3. https://www.bba.org.uk/publication/bba-reports/its-in-your-hands-2/
4. http://www.theukcardsassociation.org.uk/news/contactless_surgeJan2015.asp

Startups and established players are already responding to the changing landscape. They're creating innovative services, adopting new technology and forming partnerships that benefit both the business and the customers.

This report analyses the trends that are disrupting the financial services industry. We've prioritised the most important trends according to:

- Customers (CX and behaviours)
- Technology (new platforms and innovations)
- Disruptors (new business models)
- Culture and operations

"Do you know what our busiest bank branch is in the UK? It's our mobile app on the 7.15am train to Paddington."

Ross McEwan, Chief Executive of RBS[5]

5. http://www.bba.org.uk/publication/bba-reports/its-in-your-hands-2/

Customers
CX and behaviours

Digital technologies and the increasing use of mobile devices have opened the door to a wave of new businesses. They're capitalising on consumers' distrust and discontent with traditional financial organisations. They're disrupting the market with simpler, faster, flexible and transparent services with an immovable focus on improving the customer experience.

Mobile banking and online shopping are perceived as useful and valuable digital services in the financial industry, but further innovation in services has been slow. As such, there is a danger of complacency. According to EY's 2014 Global Consumer Banking Survey, 33% of people cite their experience with financial providers as being the reason why they closed an account.[6]

6. http://www.ey.com/GL/en/Industries/Financial-Services/Banking---Capital-Markets/Global-consumer-banking-survey-2014

Dynamic personalised advice and investments

The increase in available data and advanced algorithms is enabling companies to create more dynamic, personalised services. These services increase accuracy and save time and operational costs. Money on Toast builds its customers personalised investment portfolios using an intelligent online advice system. It combines factors, such as personal risk tolerance and tax situation, to create a bespoke portfolio that is updated when market conditions change. Customers can sign up and manage their account online, giving them total flexibility and convenience.

Analyse, because...

Simpler, faster, lower cost investment services are a major threat to existing players. Investment providers should consider prototyping algorithm based analysis tools to improve speed and accuracy, while also lowering the long term operational cost of investment advice.

International money transfer

Hidden fees are an ongoing frustration for banking customers. New entrants are using this opportunity to create completely transparent and flat rate pricing, positioning themselves as fairer and more honest than banks.

TransferWise is revolutionising the international money transfer market by offering customers a 'smart way to beat bank fees' when transferring money abroad. It offers a low, fixed fee of 0.5%. This is up to ten times cheaper than transferring money through a bank. Transactions are completed online, making it a fast and seamless experience.

Act because...

Transparency of costs is highly valued and companies like TransferWise have made it attractive for consumers to switch to its service. Be more open about fees. Explore the commercial impact of a one-off fee or flat rate, to help customers understand exactly what they'll be paying upfront. Invest in flexible, 24/7 online access to compete with these new entrants.

Personal finance aggregation

Aggregating customer data from disparate sources helps customers to simplify their finance management. OnTrees and BillGuard help customers to manage finances by aggregating all their accounts into one place. This makes it easy to get a single view of total spending, while categorising and tracking usage in real time. Both services are free, although some believe they'll start to sell their customer data in the future.

Aware because...
Customers are demanding more simplicity in managing their finances, creating an opportunity for banks to help. Investing in a bespoke aggregation tool could be costly. Working with a partner could solve this problem. This would encourage collaboration on future product developments and provide access to richer customer data.

Mobile first, CX focused banks

Mobile banking interactions are increasing, but consumers want a better mobile banking experience. Soon, launched by AXA, is one of a small group of 'mobile first' banks aiming to transform banking by developing a simpler user experience. This includes dynamic insight into spending, to encourage responsible behaviour, and uploading photos of identification documents using the phone's camera.

Act because...
Mobile only companies continue to develop services that are more useful and intuitive than those of traditional banks. Identify customer needs, benchmark against competitors and develop new ideas to deliver a competitive mobile banking service. Pilot beta versions of any new tools to learn what customers value, before scaling them to a wider audience.

Fintech partnerships

Partnerships between traditional banks and new fintech startups are creating better experiences for customers. RBS is partnering with Funding Circle and Assetz Capital to provide more options for customers requesting loans. Customers who are turned down by the bank will be referred to one of the peer-to-peer (P2P) lenders as an alternative means of securing their loan.

Analyse because...
Collaborating with a smaller startup could provide an established business with access to a nimble, innovative and credible ally. It would be less risky than starting from scratch. This would provide customers with a better experience, improving satisfaction and loyalty for both brands. Assess the benefits of potential partnerships carefully, to ensure reliability and quality of service, as well as brand fit.

Video banking

Video calling can provide a flexible means of person-to-person contact when time or location stop customers entering a branch. Barclays introduced video banking to provide a more convenient service for its customers. It's been particularly useful for people who are time poor or live in an area where a branch has closed.

Analyse because...
Video banking is creating hype, but businesses should monitor use of the service and pilot on a small scale before making significant investments. It may not become the primary means of communication for customers, so gain insight into what is driving demand for the service.

Technology
new platforms
and innovations

Today's splintered device landscape is creating more customer touch points and opportunities for new technology developments. The growing fintech sector sees countless new innovations entering the market - from pre order and pay apps to fingerprint enabled payments - but only a few will flourish in the long term.

For businesses, the skill is in selecting, developing or partnering with the right technology. It's essential it provides the level of security, experience, simplicity and ease of use that customers demand. The key issue is integrating the technology into existing systems to benefit the people working on the frontline.

Intuitive mobile banking apps

An Adaptive Lab report estimates that mobile banking interactions overtook those on a laptop in 2014. This trend is forecast to grow, with new mobile accounts overtaking new branch accounts by 2017.[7]

Many mobile banking apps simply re-size their internet banking product for a smaller screen. More personalised, real time and flexible interactions with mobile will push the service further - from camera phone ID verification to digital signatures and location tracking.

Barclays is starting to embrace this by enabling customers to take photos of secure documents and upload them to its cloud storage, all via the app. RBS is using location services to offer app customers a temporary passcode to withdraw money, if they've forgotten their debit card at a cash machine.

Act because...
Mobile banking is important to your customers and they will switch if a better mobile service tempts them away. Develop a clear mobile banking service that adds value to the customer experience by making personal finance management easier, intuitive and accessible. Benchmark current offerings and test new feature ideas with customers.

7. http://bankingappreport.adaptivelab.com/

Mobile wallets and enablers

The mobile wallet market is highly fragmented. Customers are demanding simpler, secure and hassle free payments. But with so many to choose from, it's proving far from simple.

Apple Pay is leading the charge with its simple and secure product. Consumers and merchants find the effortless user experience design easy to adopt. The addition of fingerprint tech, password encryption and the 'find (and disable) my iPhone' feature gives customers the assurance that transactions are secure. Traditionally, this is one of the major barriers to adoption with other mobile payments.

The Google Wallet experience is clunkier, requiring customers to wake up their device first then using a special wallet pin (separate to your phone pin) to make a payment. CurrentC's payment wallet, designed for retailers to avoid paying credit card transaction fees, uses cumbersome QR codes and a four digit passcode.

Analyse because...
Mobile wallets are becoming a key method of consumer payment. But a fast, easy experience and total security are essential for mass adoption and satisfaction. Assess all options and select those that offer the most accessible and seamless experiences. Pilot trials before rolling out on a wider scale.

Tokenisation

Consumer trust is a major issue for mobile payments and one of the biggest barriers to its long term adoption. 'Tokenisation' or 'encryption' - where a secure password is generated to enable a payment, but not seen by either the customer or merchant - is the key to Apple Pay and Bitcoin's assurance of absolute security when processing payment transactions.

Analyse because...
In an age where customers demand mobility and flexibility, but also bullet proof security, this type of technology is integral to the development of future payment services. Businesses must understand how tokenisation plays a role in the development of any secure transactions, from payments to customer data exchanges.

Camera phone credit card scanning

Camera phones allow customers to record and upload data wherever they are, saving them the hassle of inputting data. Google, Paypal and a handful of retailers offer customers the option of scanning their credit card to make a payment or add a new card. Scanning technology processes the card details from the photo, making the experience simpler and faster.

Act because...
This technology provides another building block in making the end-to-end payment process easier for customers. Explore how it can integrate into your systems, to offer customers more flexibility and convenience.

Bitcoin cryptocurrency

Bitcoin has divided opinion. On one hand, it's a secure, democratic and decentralised currency set to revolutionise how we buy online. On the other, it's a means of supporting illegal markets, with a turbulent and unstable value.

The lack of a central controlling institution is usually seen as one of Bitcoin's strengths. Transactions are transparent on the Bitcoin exchange and secure via the Blockchain tokenisation technology. However, the peak value of $1000 is now closer to $200, and concerns around money laundering and regulation are barriers to mainstream adoption.

Despite the concerns, investment is pouring into Bitcoin businesses. PayPal's announcement to allow Bitcoin purchase for some digital products suggests that mass market take up may not be too far away.

Analyse because...
Bitcoin has the potential to transform the payments industry. Investigate the relevance of Bitcoin for your business and your customers. How could it add value to their experience or create efficiencies in operations by avoiding credit card fees? Keep track of developing regulations and be aware of the risks. Monitor the development of Bitcoin businesses, to understand how and when to act.

Blockchain

The technology behind Bitcoin is a major talking point in the financial industry. Using this encryption to securely authorise a transaction between two different sources - even if they don't know each other - could transform countless other 'transactions' that need security and privacy.

Verification of legal documents, checking the credit history of a customer and even digital voting remove the risk of fraudulent 'transactions'. Each one would be independently verified and any attempts to alter them would show up in the public log. Samsung may use this technology to process washing machine maintenance. When an issue is detected, a supplier can be contacted and payment transferred, all without the need to involve or pay a fee to a credit card company.

Analyse because...
The extent of Blockchain's uses are not yet known. But it has the potential to help businesses manage myriad secure and private transactions. Benchmark and explore ideas and uses for internal operations and for customer experience. Experiment with pilot projects to analyse and monitor regulations carefully.

Disruptors
new business models

The rise of P2P and other non traditional models is turning the industry on its head. Quicker, easier and often lower cost services have emerged, removing the most frustrating parts of the customer experience and opening up new ways for customers to manage their finances.

Peer-to-peer loans

P2P loans have gained huge traction in recent years, as consumers look for accessible and better value ways to secure money. Funding Circle and Zopa both offer better loan rates for investors and borrowers. This makes loans available to more people at a lower cost. Enthusiastically supported by the UK government (Funding Circle received £40m investment last year) as a means of supporting lower income families to access loans, this P2P model is proving successful.

Act because...
Investigating partnership opportunities with P2P lenders extends your product offering to a wider audience and increases customer satisfaction.

Telematic insurance apps

Many car insurance providers offer telematic insurance to track driving behaviour. This enables more accurate and lower premiums for safer drivers. Newer telematic apps remove the need for traditional black boxes. This reduces the set-up cost.

Ingenie's telematic app sends drivers feedback on their performance. Drivers receive discounts for improved behaviour. Wunelli has developed an app, in partnership with MORE TH>N, offering drivers the opportunity to reduce premiums. It has also added an element of social competition, where customers can earn badges and can compare scores with friends and family.

Act because...
Insurance providers could save costs and improve satisfaction by adopting more app based telematics solutions. Look beyond driving behaviour to see what else could be gathered, like social or location data, to provide a richer customer picture and a better prediction of risk.

Automated investment management

Advanced automation tools can make services simpler, quicker and more accurate. Wealthfront removes the guesswork from investing by using an intelligent automation tool. This creates a personalised portfolio that's managed and rebalanced when markets change. The online service means customers can access the portfolio anytime, from any device. There are no hidden costs - just one simple fee.

Analyse because...
Advanced automation makes services easier, faster, accurate and efficient. Assess and trial new tools on a small scale, to fine tune the algorithms before releasing them on a wider scale.

Big data credit checking

Big data can aid fast and accurate predictions of a customer's loan risk. Lenddo customers authorise open access to all their social accounts - including Facebook, Twitter and LinkedIn - allowing it to use social data to calculate their personal loan risk.

Earnest also looks beyond the traditional credit score to judge risk. It analyses a more holistic set of data, including online buying habits and social. OnDeck provides loans to small businesses using a total view of their business health, rather than just their personal credit history. This provides a full, accurate and fair picture of a customer's loan risk, to better calculate rates for both parties.

Act because...
Using a more comprehensive set of data is more efficient and accurate. Look at how data improves or speeds up experiences for registration and risk calculation, as well as cross and up-sell opportunities. Be selective about the data you collect and establish how to aggregate it.

Peer-to-peer money transfer

Many businesses, including banks and social networks, have joined the P2P money transfer bandwagon. From Barclays Pingit to Snapchat's Snapcash, the focus is on providing the easiest means of transferring cash. But some customers have security concerns limiting their adoption of these services.

Aware because...
P2P models are proving successful. While this niche transaction type is unlikely to drive customers to switch banks, it's important to be aware of the customer needs and how they can be supported.

Culture
and operations

Driving change within a traditional financial organisation can be challenging. Complex hierarchies and a nervousness to deviate from trusted processes means that real and radical digital transformation can be difficult.

To compete in today's market with customer focussed, innovative digital services, financial institutions need to start from the inside. They need to transform their ways of working and their cultures to behave more like a startup than a bank. Only then will the required pace of change to compete be possible.

Agile product development

Startups aren't constrained by legacy technology and processes. They strive to create the customer centric services to differentiate themselves from the incumbents. They practise real agile product development to iterate and improve ideas. This makes them more responsive to changing market conditions and customer needs, and allows them to deliver a superior service.

Act because...
Businesses need to adopt more nimble processes to compete with the speed and innovation of startups and surpass customer expectations. Directors should organise teams to work in sprints. Adopt pilot and scale approaches to gain feedback on prototypes, optimise the service, and minimise risk with new launches.

Digital executives on board

The increased focus on digital will result in more digital executives being recruited to board teams. These executives have the appropriate skills to steer the overall vision.

Aware because...

Increased board presence is good news for digital directors. Data will be key to demonstrating the impact digital is having (or could have) on the bottom line. Agree clear measurement frameworks for digital projects in order to confidently lobby for the budget, resource or structural changes necessary to achieve the vision for digital transformation.

Workplace flexibility

Employees today demand greater flexibility in the workplace. Secure remote working, cloud based document sharing and digital project management tools (accessible by internal and external teams) create efficient ways of working and enable employees to manage projects collaboratively.

Analyse because...
Businesses should empower employees to work digitally to save on time and costs. Assess the best tools in the market, benchmark against competitors and interview employees to prioritise the most useful tools or technology that will improve productivity.

Digital talent acquisition

Trust has declined since the financial collapse. This has had an impact on graduates deciding on their future career paths. It's not only an issue of reputation. It's also the level of digital technology available to employees to help them work flexibly and collaboratively - a necessity for today's digital natives. Startups attract specialist digital talent, making it harder for banks and other financial institutions to hire and retain people that will champion and deliver digital innovation.

Act because…

Attracting strong digital talent is vital to long term competitive advantage. Being a more digitally focussed business, that drives innovation and takes risks with product development, will naturally attract better digital talent. These are people that want to raise the bar for digital rather than slot into an archaic structure.

Invest in digital ways of working, to ensure that employees have the tools to work efficiently and effectively.

Set up development programmes to nurture talent from within. Incentivise new ideas and prototypes to encourage innovation.
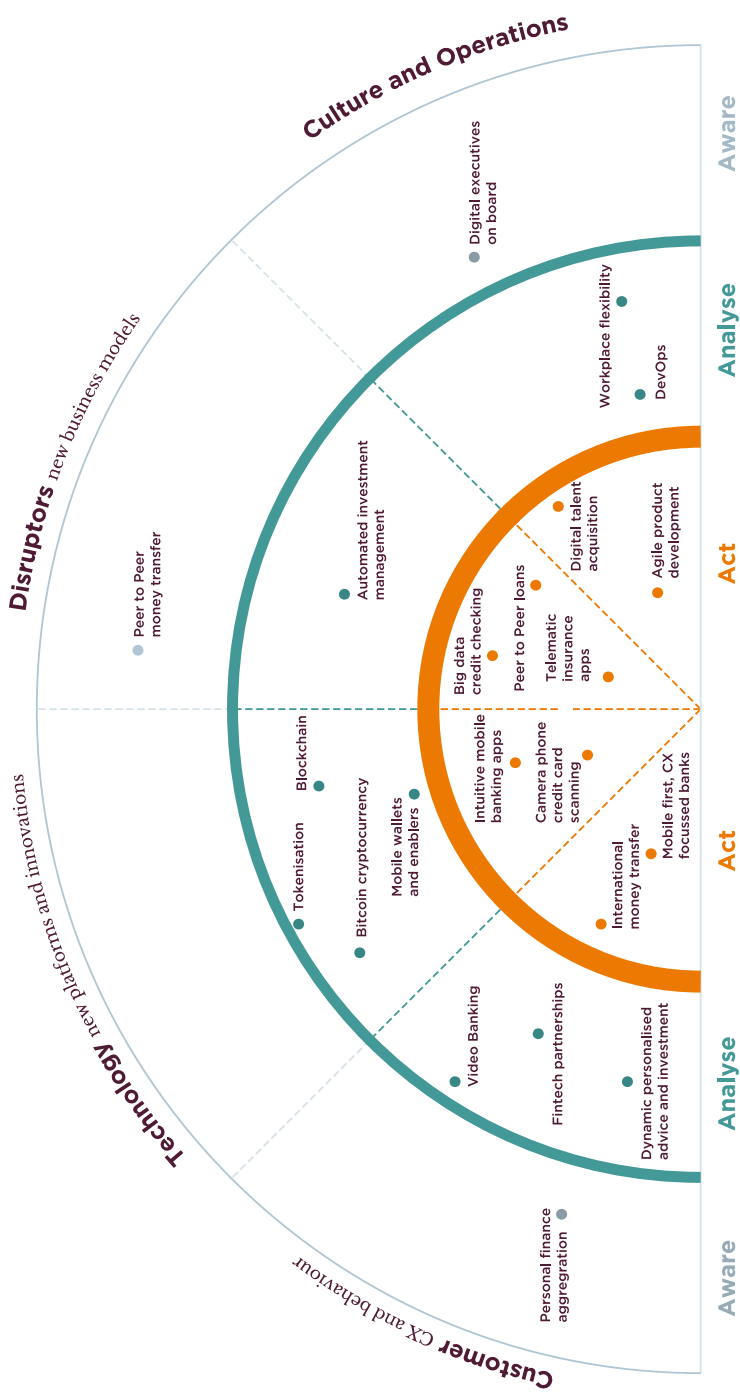
DevOps

With more focus on digital in the boardroom and more agile teams set up to handle rapid new product development, DevOps will become an important development method. It will encourage more collaboration and integration between tech developers and operations. This speeds up the time it takes for a new product to launch, decreases the chance of failure and improves the rate of recovery when issues are detected. This will result in higher quality and better integrated products.

Analyse because...
Better collaboration will save costs and improve output. Assign leads to manage virtual teams across the business, with the aim to improve collaboration on digital projects that span departments. Pitch for board buy-in to ensure directors of departments are supported in driving collaboration from the top down.

Trends Radar for Financial Services 2015

Culture and Operations

Disruptors *new business models*

Technology *new platforms and innovations*

Customer *CX and behaviour*

Aware

Analyse

Act

Act

Analyse

Aware

- Digital executives on board
- Workplace flexibility
- DevOps
- Automated investment management
- Digital talent acquisition
- Agile product development
- Big data credit checking
- Peer to Peer loans
- Telematic insurance apps
- Peer to Peer money transfer
- Blockchain
- Tokenisation
- Bitcoin cryptocurrency
- Mobile wallets and enablers
- Intuitive mobile banking apps
- Camera phone credit card scanning
- Mobile first, CX focussed banks
- International money transfer
- Video Banking
- Fintech partnerships
- Dynamic personalised advice and investment
- Personal finance aggregration

Conclusion

Now you know the trends, you may be asking yourself: what next? Here are our key recommendations:

Focus on delivering a brilliant CX

- Look at how new digital technologies can improve the customer experience, especially those that simplify a service. Don't think of them just in terms of the money and time it can save your business.
- Create more customer centric services. They drive advocacy and will be more valuable in the long term.

Be open to new ways of doing things

- Embrace new technology, new processes and new models.
- Trial and prototype. Pilot and scale.

Act more like a startup

- Change your culture now. You won't deliver digital transformation tomorrow with the culture and processes that exist today.
- Take inspiration from startups. Be more agile and open to failing. Learn from your failures and iterate faster.

Brilliant Noise

Brilliant Noise is a strategic digital agency that works with organisations to help them see and make their future.

Our cross-discipline team brings strategy, insight, branding, content, creative and social media together to solve some of today's biggest business challenges:

- Be customer-led.
- Build digital brands.
- Tell stories that scale.
- Change leadership and culture.

To find out how Brilliant Noise can help you solve your challenges get in touch:

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