7

Innovation Trends
for Financial Institutions

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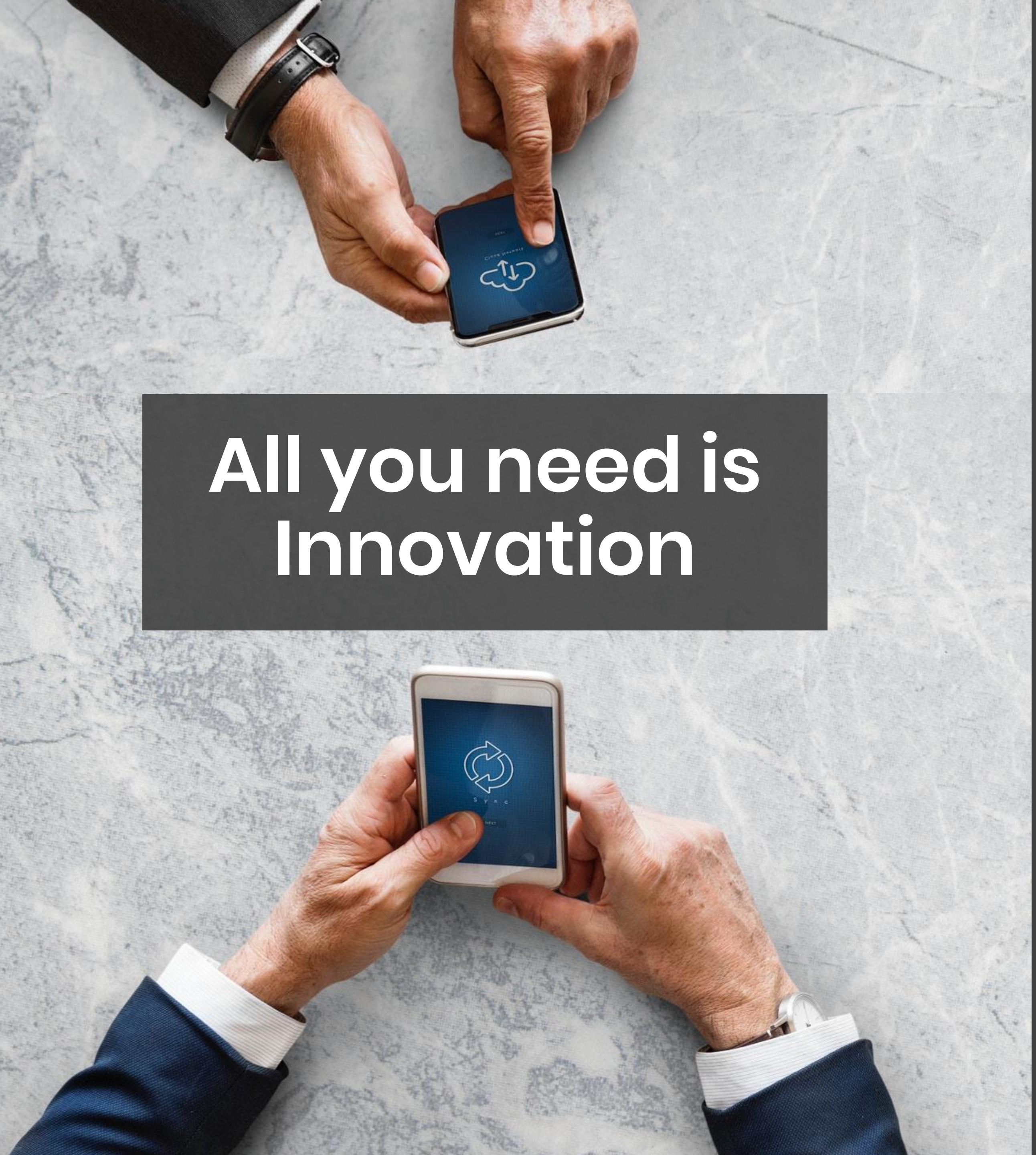
Contents

“Never before in History has innovation offered promise of so much to so many in so short a time”

Bill Gates



All you need is Innovation

Technology and digital innovation are outpacing incumbent banks capacity to understand it, test it and incorporate it into new business solutions.

Large and incumbent organizations usually move in slow motion in part because their employees' average age is high, which makes it harder for them to accommodate the so needed agility and flexibility.

Gartner's 2018 CEO survey forecasted that, by 2030, 80% of financial firms will either go out of business or be irrelevant. New competition is the reason, along with change in customer behavior and technology advances.

PwC's 19th Annual Global CEO Survey also found that 80% of banking CEOs are concerned about the speed of technological change, more than on any other industry sector.

Disruption is the new normal

We are living in the age of disruption. For younger professionals, today's active buyers, it is perfectly natural to share personal information through social networks and with providers. For them, installing a new app to access an innovative banking service or open an account is completely normal. They expect a service/a response/a solution "now", not "tomorrow". Many legacy financial institutions struggle to retain talent, with employees – in particular millennials – leaving for startups in search of new and different experiences.

Startups are one-step ahead because they breathe innovation, preaching a (fast) trial and error culture and an incessant pursuit of new ways of doing things.

For banks, the answer to this crossroad is to create their own innovation labs, inside the organization, adopting a startup culture and even incubating startups in house, with mentoring in the hands of internal senior people with the right mindset. To solve the innovation challenge, it is important to look outside.

To succeed, financial institutions need cultural transformation.

The Trends

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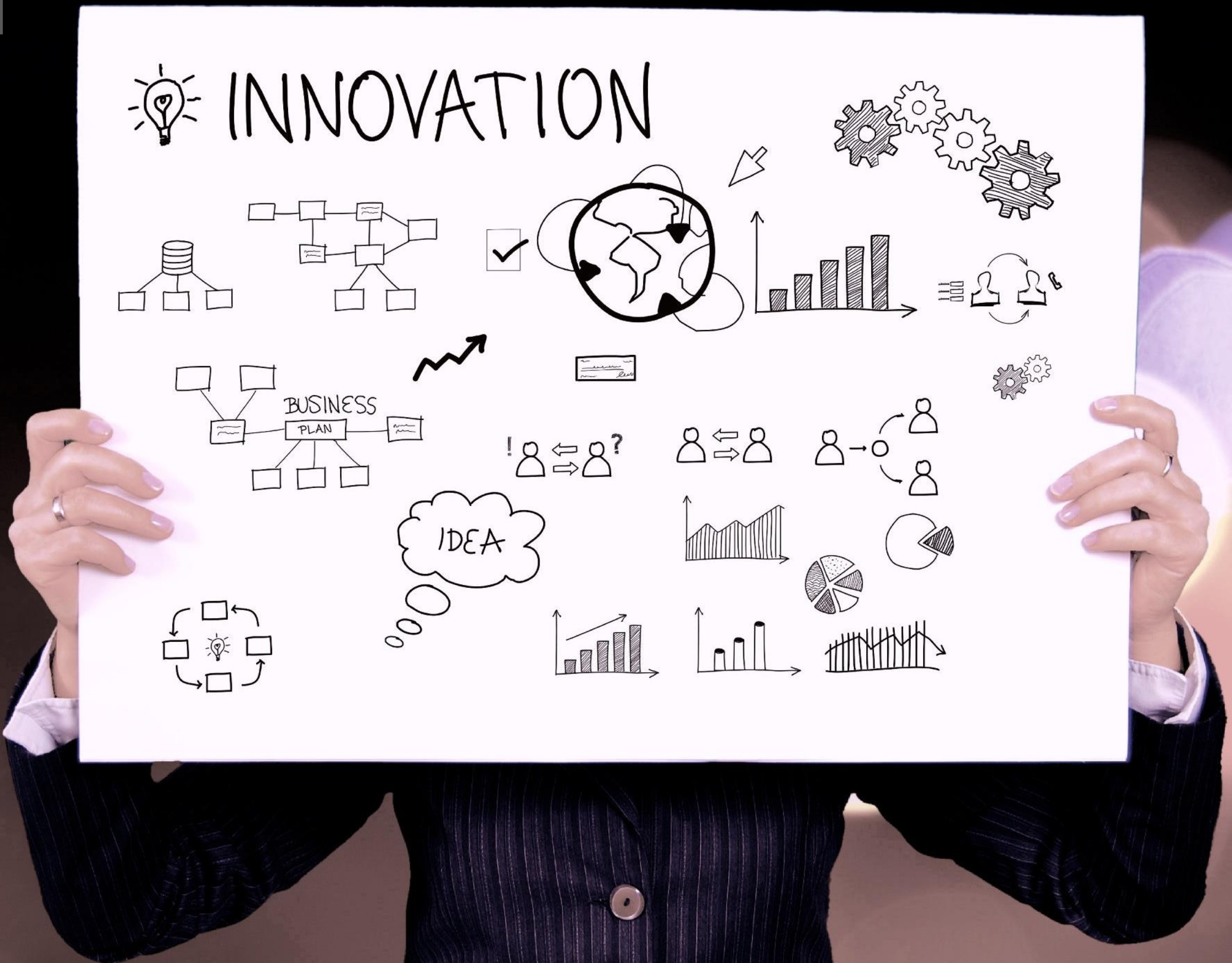

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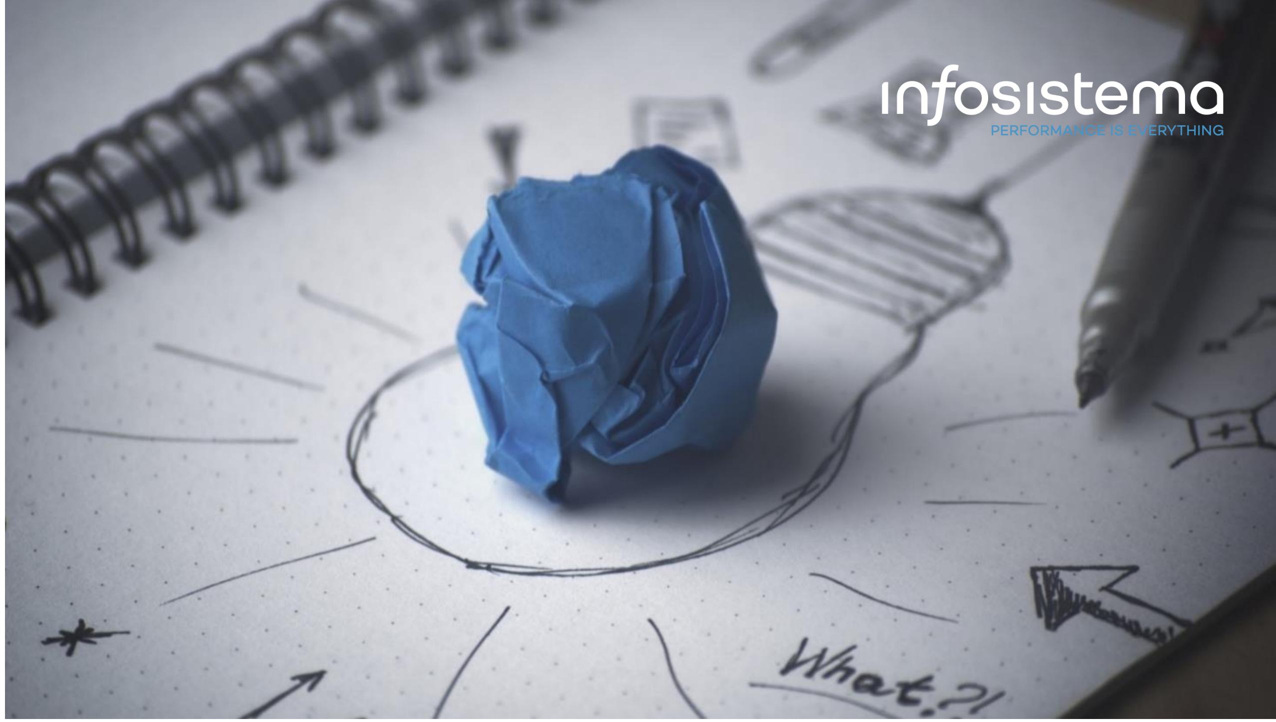
"Day One" Culture Thinking and Acting like a Startup



Fast. Simple. Collaborative. These words are the "Holy Grail" of the digital economy and several institutions are already living by it.

A growing number of Fortune 500 companies are housing accelerators or incubators, according to consulting firm New Markets Advisors.

IBM, Coca-Cola and Procter & Gamble are among the ones that have an incubator in at least one business unit.

Royal Bank of Canada (RBC), for example, has an innovation department where, among other things, they explore artificial intelligence (AI) solutions that read unstructured data and extract valuable information.

Technology alone isn't enough, however. To accomplish innovation, companies need to act like a startup.

No one understands this better than Jeff Bezos, Amazon's founder and CEO, who implemented the famous "Day One" culture.

For Amazon's employees, it means they have to be (1) customer obsessed, (2) focused on the results (not on the process), (3) making high quality decisions quickly and (4) embracing external trends fast.

Amazon, a $1 trillion company and a renowned leader in the digital economy, turned **culture** into a **competitive advantage**.

2 Joining Forces with Fintech

Cooperation is defining the digital economy and open banking is changing the future of financial services.

In “Banking Top 10 Trends to Watch in 2018”, Accenture says “fintech lit an innovation flame under incumbent banks and accelerated their evolution”. Banks have the customer trust, the risk management and the infrastructure. Fintech players have the agility, the customer experience focus and the innovation culture that creates success.

For banks, joining forces with fintech players is the opportunity to:

- Be data-driven with lesser costs;
- Be more efficient;
- Try new revenue models;
- Meet customers’ ever-changing expectations with less effort.

For now, the sharing economy seems to be a concept only related to digital disruptors like Uber and Airbnb.

However, PwC’s “Financial Services Technology 2020 and Beyond: Embracing Disruption” alerts that “the sharing economy will be embedded in every part of the financial system”, pointing that by 2020 consumers may not turn to banks to get banking services.

Decentralization can be an **opportunity** rather than a threat if financial institutions join forces with third parties and be part of the disruption from the beginning.

3 Open and Real-Time Banking A New Era is Here

Open Banking isn't about technology – it is about **centering valuable offers around customers' data with their consent**. In Europe, the PSD2 directive is already a major driving force for open banking and real-time payments, compelling financial institutions to expose services as APIs to third parties (Payment Service Providers).

From the UK – the most disrupted traditional banking market – come the best examples. HSBC developed the "Connected Money App", with Open Banking APIs, giving the user a single view of all accounts, from any bank, thus attracting customers from other providers. The app also provides value-adding features that enhance customer experience, like spending behavior analysis and 'balance after bills'. Other example of innovation comes from the Royal Bank Of Scotland, which launched NatWestPay, a service that lets customers pay for a good/service directly from their accounts - without the need of using a card.

In the US, market competitiveness is pushing an open API ecosystem and more innovative digital offers.

"A decade ago, there were a handful of open APIs exposed by banks to enable third parties to work with them. That number has now exploded to thousands and is growing every week", reports Accenture[1].

The "Flavors of Fast" annual report from FIS, released in October 2018, identified 40 active real-time payment programs around the world. (+25% in 2017), expecting another 16 to be live in the 12-18 months. The biggest value, says FIS, comes through the services that can be provided on top of real-time payments – e.g. retail apps & instant loans.

1 "Banking in 2018 - Top 10 Key Trends to Watch", Accenture https://blogs.gartner.com/homan-farahmand/2017/02/03/robotic-process-automation-knocking-on-iam-door/

4 The future is Mobile-Centric

Branches are no longer at the center of interactions as customers are looking to engage with banks through digital touchpoints.
In fact, branch use is in decline, according to Forrester's "The State of Digital Banking 2018", which surveyed European and US online adults in 2017.
On the other hand, mobile banking is "growing rapidly". The report further adds that 34% of Europeans "use a smartphone app and/or their banks mobile website for banking activities at least monthly", a percentage that rises to 46% in the US.
In 2018, N26, a challenger bank from Germany with more than one million customers, brought its mobile-first banking app to US market. Nicolas Kopp, Americas CEO, has said to Forbes.com that N26 is a "technology company with a bank licence".
The FIS Consumer Banking Report 2018 highlights that, for the first time, "mobile has overtaken online as the primary channel", with 42 percent of consumers using mobile apps more than they did a year ago.

Overall, **72 percent of bank interactions are digital** (online or mobile), concludes the report, highlighting that "digital is the norm".
Customers still use branches for routine interactions. Deloitte's "2019 Banking and Capital Markets Outlook" highlights that branches "will continue to have value", in particular those that incorporate with "greater digital enablement" (digital screen self-service, virtual video meeting, virtual remote services, etc.).

5 Live for the Customer Experience

To stay relevant, banks can no longer focus on just developing a new service or product. In the digital age, value comes from providing a rewarding experience.

“Customers worldwide have embraced digital touchpoints to conduct banking tasks”, writes Forrester (“The State of Digital Banking”), adding: “Where incumbents haven’t responded with better, more relevant digital experiences, a host of startups is ready to take over”.

Only leaders, says Forrester, “are investing in business technology with the aim of delivering compelling digital customer experiences and building strong digital capabilities of the future”.

Millennials are quickly becoming the most important consumers. Their spending power is increasing and they have a high influence on society – they are “hypersocial”.

According to the FIS Consumer Banking Report 2018, “consumers expect banks to be always-on and a long-term advisor”.

To rise to this expectations, banks need **end-to-end personalization** with the help of advanced analytics and new delivery platforms.

Although banks are investing in customer analytics at the product level, says PwC (“Financial Services Technology 2020 and Beyond: Embracing Disruption”), the majority is not using this technology to build a deeper relationship.

This “simplistic understanding” of customers will not serve the future leaders of banking. “Begin with understanding customer needs, not with products and pricing”, advises PwC.

6 AI Leads the Way

Artificial intelligence (AI) and machine learning (ML) are disruption tools with the power to truly improve the way businesses work and amplify what they can achieve.

By **automating simple and repetitive tasks**, AI and ML enhance operational efficiency. In the analytics realm, AI can anticipate needs and behaviors based on current data/trends.

With artificial intelligence, banks can simplify the process of delivering customized experiences, which in turn will make them more present in their customer's lives.

AI alone is helpful. Combined with human intelligence, however, it is truly transformative. A team of Harvard pathologists, reports Accenture ("Realizing the full value of AI - Future Workforce Survey Banking"), created an AI-based technique to identify breast cancer cells and found out that precision rates were higher when AI and humans worked together (99,5% accuracy, a percentage neither an AI or a human have previously achieved by themselves).

Banks that embrace this "applied intelligence", says the report, have the chance to "solve complex challenges, develop new products and services, and break into or create new markets". Accenture also found out that banks that invest in AI and human-machine collaboration tools could boost their revenue by over a third (34 per cent) by 2022.

By freeing up people from repetitive/low value tasks, artificial intelligence can also help employees **unlock critical/creative thinking**, which creates true business value.

7 Embracing the cloud

Legacy infrastructure does not support a digital future. Cloud is the default platform of innovation. It is where you find the latest and most powerful developments in AI and ML. It means getting access to larger and more advanced computer resources, to on-demand processing capacity and to future proof tools that are constantly evolving.

By developing applications natively in a cloud platform, banks can deploy (and modify) apps faster, **reduce time-to-market and respond sooner to customer demands.** Lower costs, agility, automation, resilience and access to innovation are just some of the reasons to consider the cloud.

However, financial institutions handle sensitive data, which explains why they have been reluctant to cloud adoption. Still, as Capgemini[2] recalls, the competition of fintech and challenger banks is "changing the dynamics". Monzo, a challenger bank from the UK, runs entirely in the public cloud.

The cloud security myths that used to raise concerns are no longer an issue. Public cloud providers are tech giants with a level of sophistication difficult to attain by any other company on the planet.

These companies are also under the biggest scrutiny, which is why no one invests so much on data security or takes privacy more seriously than them. Unsurprisingly, banks are moving to the cloud. In 2017, Bank of America chose Microsoft Azure to deliver new business efficiencies[3], support digital culture change and better meet customer needs.

2"Banking Migration to the cloud", Capgemini, August 2018. https://www.capgemini.com/2018/08/banking-migration-to-the-cloud/
3 "Bank of America chooses the Microsoft Cloud to support digital transformation", Microsoft, October 2017 https://news.microsoft.com/2017/10/02/bank-of-america-chooses-the-microsoft-cloud-to-support-digital-transformation/

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