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FinTech is Eating the World

How Disruptors Can Remake the Market and How Incumbents Can Stay Relevant in 2020

Financial Technology (FinTech) is taking over the world.

Today, FinTech accounts for almost half of all venture capital investments and has been adopted by 25% of all small to mid-size enterprises (SMEs).

At the same time, traditional banks and financial institutions struggle to compete. Along with facing greater regulatory oversight, they often lack the agile architecture, personnel, and mindset that digital transformation requires.

Is there any way these incumbents can compete with the flood of FinTechs that seek to replace them?

In this ebook, we'll discuss the current state of FinTechs, how they reached their present level of adoption, and several ways in which traditional institutions can leverage FinTechs to stay relevant and competitive in the rapidly-changing financial services landscape of 2020 and beyond.

Table of Contents

The State of FinTech

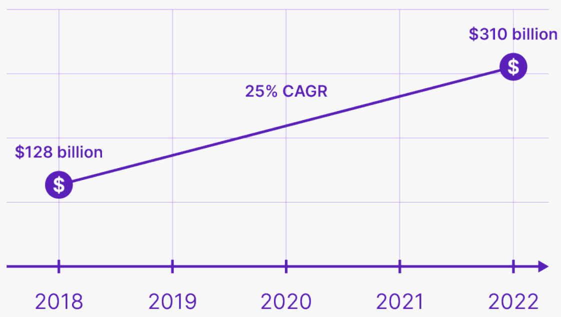
The financial services industry has been turned upside down in recent years.

A variety of FinTech startups and challenger banks, such as N26, Venmo, Ant Financial, SoFi, Transferwise, and many others are rapidly gaining market share. Three out of four global consumers are now using FinTech services to transfer money.

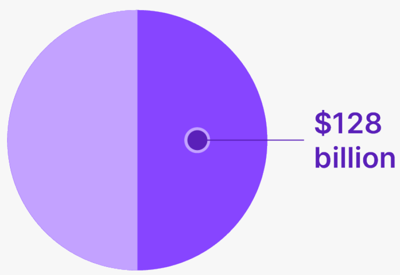
The FinTech adoption rate is at 25% among SMEs, and projections based on current trends indicate that it could rise as high as 64%. According to Efma's World Retail Banking Report, 81.9% of customers derive greater customer satisfaction from FinTechs than traditional banks. Why? Because traditional financial services' rigorous underwriting criteria, underwhelming customer service, and slow-moving credit application procedures cost businesses and customers time and resources that they simply don't have to spare.

Investment in FinTech is expected to reach \$310 billion by 2022 at a compound annual growth rate of 24.8%, according to a report by The Business Research Company. Astoundingly, FinTech accounted for almost half of all venture capital investment in 2018. Meanwhile, 60% of banks fear that they'll lose up to 15% of payments revenue – or \$88 billion – to new competitors over the next three years, according to Accenture's 2019 Global Payments Survey.

Growth of FinTech Investments Around the World



FinTech Accounted for Nearly Half of All Global VC Investments in 2018



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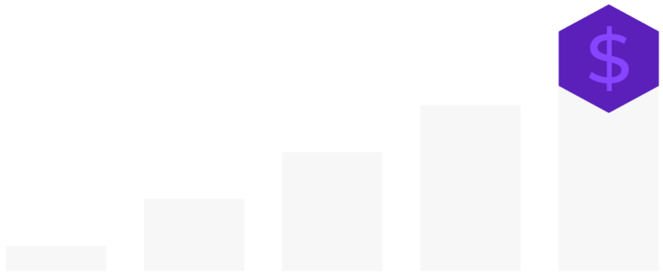
In this rapidly-changing landscape, traditional banks and financial service providers are struggling to keep up and remain relevant.

While digital transformation is on everyone's lips, banks also need to focus on front-end innovation as a matter of urgency if they hope to keep pace with their FinTech competitors.



Why FinTechs Are So Successful

The core reason FinTechs are thriving is the fact that they deliver a better customer experience. Some examples of how FinTechs are improving the customer-facing aspects of financial services include:

Greater Ease-of-Use

FinTechs understand the importance of user experience and design their products and services with this in mind. Whether customers are signing up for a new account, checking their balances, creating a savings goal, or making an instant peer-to-peer payment; the more manageable the entire process is to perform, the happier they are.

Much of this comes down to simple user experience design: Allowing users to achieve their goal in as few steps (or taps) as possible while making it a visually pleasing experience using calming, uncluttered design and easily navigable, intuitive menus.

Elements like gamification and clever data presentation can make dull tasks like budgeting seem more fun. Additionally, seemingly minor features such as automatically transferring "rounded up change" to a savings account make it easier for customers to reach their goals.

Better Service

Whereas traditional financial services often rely on the breadth and interconnectedness of their service offerings to keep customers locked in, FinTechs typically only offer one or two specialized services. As such, they need to work harder to earn customers' loyalty — and referrals — through more attentive and personalized customer service delivery. According to Capgemini's World FinTech Report, more than 90% of FinTech firms named agility and enhanced customer experience as critical competitive advantages.

Smart support infrastructure, combined with robust self-service help materials, chatbots, and active social media response teams, allow FinTechs to meet and support their customers on whichever channel they use to contact the brand.

While some traditional industry leaders have made great strides in bringing their service up to the standards modern customers expect, many sadly leave much to be desired.

Lower Prices

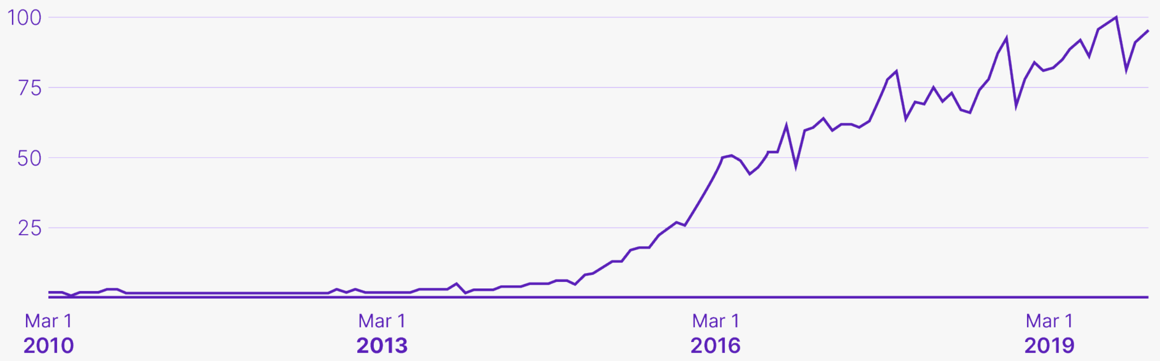
Thanks to their lean, predominantly virtual business model, most FinTechs have lower overheads, which allows them to charge their customers lower fees for the same services. This is true even though they're often renting the core infrastructure needed to execute transactions, such as payment (ACH), clearing (NSCC), and messaging (SWIFT) from long-standing banks.

Interestingly, the majority of FinTechs have focused on upgrading the frontend of financial services rather than the actual infrastructure or "rails" used to perform services like executing payments.

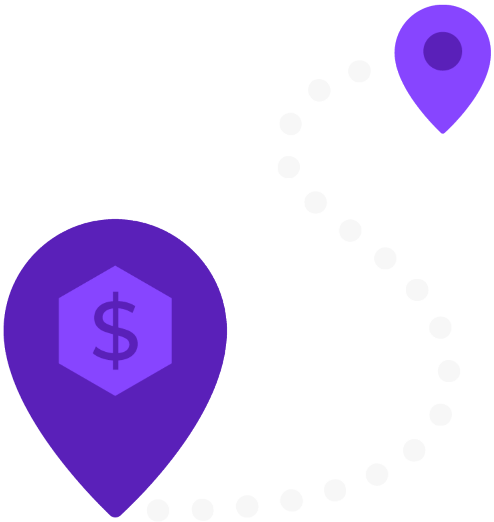
While FinTechs may have lower overheads and more appealing front-end experience, they lack the back-end infrastructure to process transactions themselves and remain heavily reliant on established banks, which means their costs to use these rails are higher.

This dependency raises the question of how sustainable these lower fees are in the long term — although it remains to be seen how technologies like blockchain will impact FinTechs and the payments industry as a whole.

Google Trends "Interest Over Time" Result for the String Search "FinTech"



Source: https://trends.google.com/trends/explore?date=2010-02-14%202020-02-14&q=fintech



How Did We Get Here?

The rise of FinTechs comes from three broad drivers of change:

Technology

Technological advancements have allowed FinTech startups to build almost wholly virtual operations that rival — and in some ways surpass — those of traditional financial service providers. Whereas banking industry incumbents have long relied on physical infrastructure (such as bank branches) to scale, technology-fueled neobanks can scale rapidly due to their agile and cost-effective operations. For instance, U.K.-based virtual bank Revolut, founded in 2015 (and recently launched in the U.S.), already has more than 1.5 million customers despite having no physical branches.

Mobile technologies have transformed what the word "payments" means, and have placed financial advisors, loans, and wealth management tools in the pocket of every customer with a smartphone.

Data analysis, artificial intelligence, and the Internet of Things (IoT) are enabling the automation of everything from account registrations and transactions to investing and credit applications. Meanwhile, developments such as biometrics and distributed ledger systems are also allowing for authorizations and transactions that are faster, cheaper, more transparent, and more secure.

Customer Expectations

Banking customers have heightened expectations due to the speed, convenience, and enhanced customer experience to which they have become accustomed. Thanks to the ubiquity of conveniences like predictive personalization and same-day delivery, customers increasingly expect this level of instant gratification to carry through to other spheres of life.

What's more, with greater access to information, customers can now compare their options and pit brands against one another with a few taps of their fingers. As a result, customer-centric product and service design are on the rise as companies strive to differentiate themselves and win customer loyalty.

Additionally, in the wake of the 2008 financial crisis, banking customers became much more demanding about banking services. They began scrutinizing financial service providers and holding them to higher standards with regards to not only pricing and favorable interest rates but also the overall level of care and quality of their experience as customers.

> **Customer-centric product and service design are on the rise as companies strive to differentiate themselves and win customer loyalty.**

Regulations

Directives governing the financial services sector have had a significant impact on the industry, regulating factors such as authentication standards and encouraging the adoption of open banking.

For example, the European Parliament's 2015 revised Payment Services Directive (PSD2) promotes the development of online and mobile payment services through open application programming interfaces (APIs), which allow third-party developers to build and integrate applications using previously inaccessible customer data.

Likewise, the 2016 ruling by the United Kingdom Competition and Markets Authority (CMA) requiring the nine biggest U.K. banks (the "CMA 9") to grant licensed startups access to transaction data has allowed numerous financial services startups to emerge and offer customers new tools to manage their finances — usually via their smartphones.

While these regulations played a significant role in paving the way for FinTech startups to thrive (primarily by piggybacking off incumbents' infrastructure), a lack of regulatory oversight played as big a role. Fully-licensed banks are subject to a massive regulatory compliance framework. In contrast, most FinTech startups do not need to satisfy the same standards, granting them far greater agility when it comes to launching new financial products.

Disruption Is Healthy: FinTechs Can Help

While FinTechs are causing unprecedented disruption, they also present an unprecedented opportunity.

They can help incumbents who may be restricted by legacy systems and greater regulatory oversight to make significant digital transformation wins and offer customers more value with greater ease.

Traditional financial service providers like banks increasingly find themselves in competition with FinTech startups and challenger banks, which tend to have lower overheads.

Most banks simply aren't yet capable of doing what FinTechs achieve with ease, mainly because their attempts at digital transformation are held back by cumbersome legacy infrastructure and outdated operational processes, risk frameworks, and conservative thinking.

However, collaborations and partnerships between incumbents and FinTechs are becoming increasingly common. There is an emerging spirit of collaboration between FinTechs and incumbents as both sides realize there is more to be gained by cooperation than outright competition. Over half of traditional banks now say they would be open to partnering with FinTech startups, and 82% of those expect these partnerships to expand within the next five years.

Open banking is changing the face of the industry. According to consulting firm EY, open banking is "online banking and financial services enabled through consumers' ability to offer third-party providers access to their personal bank account data and payment initiation."

In other words, consumers can use third-party apps like peer-to-peer payment services and budgeting tools because their banks grant those apps access to their bank account data through an API.

60% of traditional banks are open to partnering with FinTech startups

source: https://www.business2community.com/finance/5-ways-fintech-is-reshaping-the-financial-services-industry-02228834

Also known as banking-as-a-service or BaaS, this arrangement is mutually beneficial. Without access to the customer's data, the FinTech app or platform wouldn't be able to offer their service without becoming the customer's primary bank account, which would necessitate becoming a bank and jumping over all kinds of expensive regulatory hurdles. On the other hand, the bank gains the ability to extend additional functionalities to their customers without needing to develop the tools and user interfaces themselves.

And so, by viewing disruptive startups as collaborators and partners rather than competitors, financial services incumbents can gain a competitive advantage, particularly if they can adapt and offer their customers heightened convenience and innovative new financial products.

FinTech Trends to Embrace to Stay Competitive

FinTech is reshaping the financial services industry, forcing incumbents who want to remain competitive to adapt and embrace trends that have transformed customer expectations.

Cross-Organizational Digital Transformation

The trend of digital transformation has rippled across just about every industry in recent years, and banking is no exception. Digital transformation is a business priority for the majority of banks. Almost across the board, banks and other traditional financial industry leaders are working on digitizing and automating their processes and moving them to the cloud. This monumental endeavor aims to make operations more efficient while offering customers better, more integrated, and more convenient financial products.

Most banks managed— albeit with mixed success rates — to upgrade the consumer-facing end of their operations for the digital age through the adoption of internet banking and then making the shift to mobile banking. Many of the back-end processes, however, are still manual and paper-based.

The challenge regarding back-end processes is primarily due to deeply entrenched legacy systems, the maintenance of which accounts for up to 75% of most banks' IT budgets, leaving little room for digital innovation. Dependence on legacy systems makes it difficult for incumbents to deliver the seamless, personalized customer experience that today's consumers demand.

Banks need to make concerted efforts to address tedious and time-wasting back-end processes and protocols if they wish to compete with FinTechs that don't face similar issues. More efficient processes across the organization can have a profound impact on the bottom line.

Open Banking Innovation

As mentioned above, the open banking trend is taking the financial services world by storm. By collaborating with newcomers through open banking, incumbents have the opportunity to innovate their offerings, buying them time to roll out digital transformation at a more gradual and sustainable pace.

Key considerations when adopting an open banking model include risk mitigation, customer privacy, data protection, fraud prevention, and standardized API processes, as well as building mutually beneficial relationships between banking incumbents and third-party providers (TPPs).

Banks can also use this opportunity to learn from FinTechs and launch or fund their own “startups” in response to customer needs. When you’re using Venmo, Monzo, SoFi, Revolut, Transferwise, Betterment, or most other FinTech apps, you’re not using a new financial system — they all rely on the same legacy architecture used by incumbents. Fintechs are merely repackaging the same services in more appealing ways to make them more attractive to consumers. There’s nothing to stop incumbents from doing the same.

85% of banks view digital transformation as a significant business priority

source: https://www.business2community.com/finance/5-ways-fintech-is-reshaping-the-financial-services-industry-02228834

Omnichannel Customer Experiences

Gone are the days when physical banks were the norm and customers didn’t trust internet banking. Mobile-first and virtual banks are massively popular among consumers who spend all day on their phones.

In other industries, customers have become accustomed to brands being available everywhere, irrespective of device or platform. In response, financial services are increasingly adopting an omnichannel approach to customer experiences to make their operations more customer-centric.

Omnichannel customer experience doesn’t just involve multiple channels, such as websites, in-branch kiosks, mobile apps, social media, email, chat, and more; it describes a seamless and integrated customer journey across channels. This omnichannel approach ensures that a brand’s messaging, content, and look is consistent regardless of the channel while giving the customer a more unified and enjoyable experience.

Customer Service Chatbots

As banks strive to keep up with the standard of customer service set by FinTechs, automation tools such as chatbots are rapidly gaining traction, giving rise to a phenomenon known as “conversational banking.”

In addition to customer-facing chatbots that allow for 24/7 customer service, support agents are making use of virtual assistants to help them locate the correct information when handling customer queries. This allows them to address questions and complaints more quickly and accurately.

Blockchain and Distributed Ledger Technology

Blockchain and distributed ledger technology (DLT) have gained popularity because of cryptocurrencies like Bitcoin, but for the banking industry, these technologies present other significant opportunities.

For one thing, blockchain's advanced encryption and decentralized ledgers offer a high level of security and transparency. Additionally, blockchain and DLT could allow banks to clear international transactions far more quickly and cheaply than using traditional infrastructure.

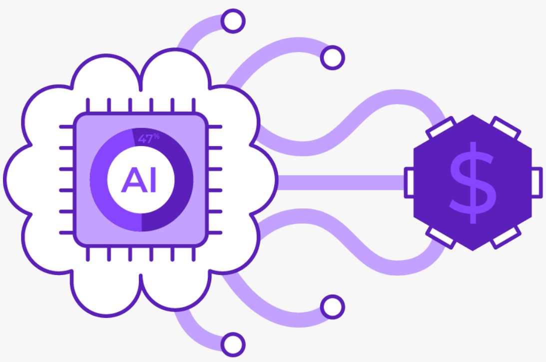
> **Wells Fargo was the first U.S. bank to pilot a Facebook Messenger chatbot that helps customers check their balances and find ATMs**
>
> source: https://stories.wf.com/helpful-banking-assistanton-facebook/

Automated Advisors and Programmatic Commerce

A growing number of financial service providers — incumbents and startups alike — are using artificial intelligence to automate financial advice. These "robo-advisors" apply advanced analytics to give users investment prompts and, in some cases, even perform investments automatically in response to changing conditions. They're typically much more affordable and accessible to the average consumer — and particularly to historically underbanked consumers — than traditional financial advisors.

Another expression of this automation trend is conditional banking, which allows customers to create rules that execute in response to meeting predetermined conditions. The simplest example of this is savings vaults that automatically "bank your change" so that you save towards your goals without even thinking about it.

In a more complex example, you might link your fitness tracking wearable to your bank using a service like If This Then That (IFTTT) to reward yourself for reaching your weekly fitness goals. So, you automatically transfer money to your "reward" account — or even automatically add something to your Amazon account. The possibilities are endless. While this kind of programmatic banking is still in the early stages, it has massive potential and is relatively easy to set up.



> **The majority of banking execs (47%) say AI is the technology that will have the most impact on their organizations over the next 3 years.**
>
> source: Accenture Banking Technology Vision 2019

How Can Financial Services Stay Relevant in 2020?

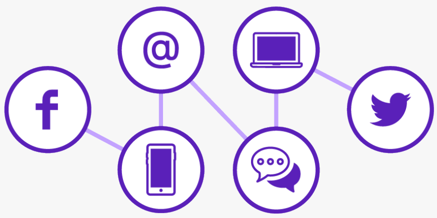
Let's take a look at how financial service providers can take a holistic approach to delivering customer experiences that are memorable for the right reasons:

Optimize the Customer Experience

As we've seen, customer expectations are higher than ever. Banks and other financial service providers must do everything in their power to optimize the customer experience. This means updating your customer experience (CX) to make your users' lives easier in as many ways as you can, whether it's the number of clicks it takes to check a balance or the amount of effort required to open an account and meet KYC requirements.

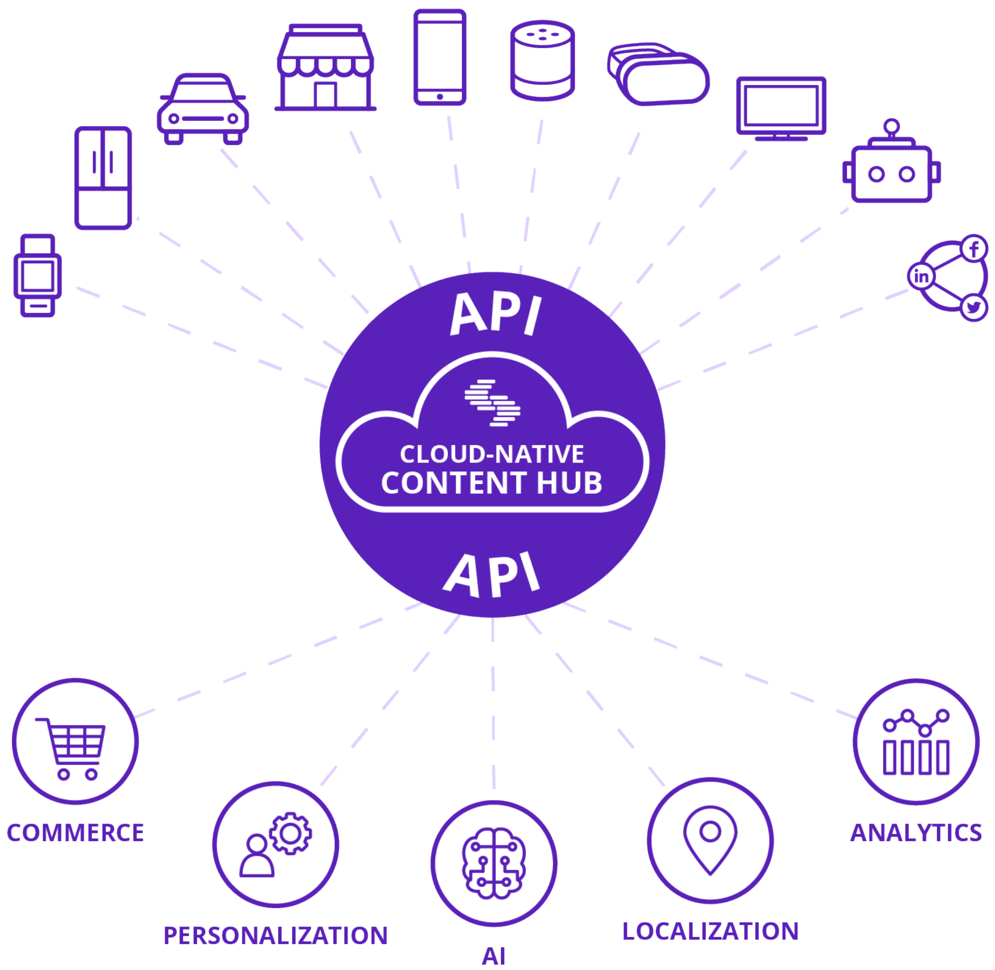
Because some neobanks now allow customers to register with a selfie and a photograph of their identification document, incumbents need to up their game by offering equivalent or more exceptional customer experiences. There's a reason the phrase "surprise and delight" is now a branding mainstay: Companies need to not only meet customers' high expectations but somehow exceed them.

The average consumer now spends 3-4.5 hours per day on their mobile phone and uses an average of six touchpoints in their typical customer journey. A big part of providing an outstanding customer experience is ensuring that you speak to customers "in their language," using the channels they prefer. Coupled with this is the growing expectation of instantaneous or near-instantaneous customer service. According to customer service and CRM software company Zendesk, 64% of customers expect real-time resolutions regardless of the channel they used.



The average consumer interacts with 6 different touchpoints on their journey to a conversion

source: https://www.knexusgroup.com/show/blog/Five-Omnichannel-Statistics-You-Need-to-Know/



Embrace Omnichannel

According to a recent Aspect Software survey, organizations that implement omnichannel content strategies have a 91% higher year-over-year customer retention rate than businesses that don't. This retention rate isn't surprising when we consider Google research that says upwards of 90% of people who own multiple devices switch between devices to complete tasks.

A successful omnichannel marketing strategy is about more than just being present on numerous channels frequented by your customers. It's about curating a consistent customer experience so that each channel is a natural extension of your brand experience. That is to say, the design of your core website, mobile app, bank branches, ATM menu, and marketing collateral should all speak to one another so that using one channel seamlessly blends into the experience of using another. For instance, navigating to a particular menu item using the mobile app should follow a very similar path as the browser website.

Regardless of the state of your internal operations and your back-end processes, you should endeavor to provide a unified brand experience across channels. It is much easier to implement a consistent and meaningful brand experience when you adopt a holistic approach to managing content, as opposed to using a different content management system (CMS) for each channel. Using a headless CMS to build a digital experience platform (DXP) is the best way to roll out a truly omnichannel strategy that allows you to delight and surprise your customers with ease.

Fire Up Personalization with the Power of Insight

Personalization is no longer just a term bandied about by marketers describing the future of commerce. Due to the proliferation of data and advanced analytics capabilities enabled by machine learning, hyper-personalization, and even real-time personalization, is now a reality.

According to Accenture, 91% of consumers prefer brands that provide personalized offers and recommendations.

In marketing, personalization is about creating one-to-one connections between brands and their customers, making the customer feel special and recognized by providing them with relevant content and offerings that address their needs and deliver unique value.

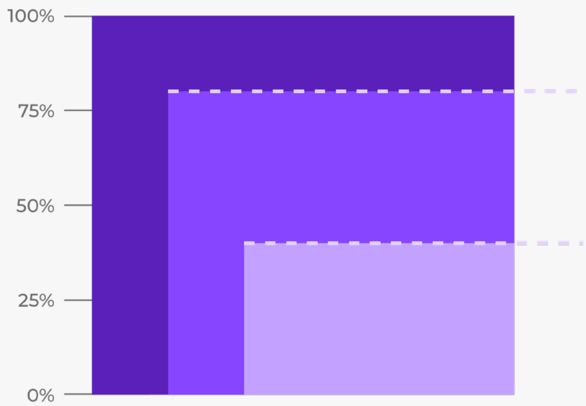
Banks need to utilize the vast quantities of customer data at their disposal to gain insight into their customers' preferences and "jobs to be done" to provide a world-class customer experience.

Build on Trust to Help Customers Achieve Their Goals

Banks need to move beyond pushing products to actively helping customers to achieve their goals. For consumer-facing banks, this might mean assisting customers in meeting their savings goals or helping them to finance life milestones.

For banks serving businesses, this might mean helping customers to connect with strategic partners or investors, providing insights into regional trends, and other value-adds that can help businesses drive growth.

Familiarity and trust are traditional banks' primary advantage over the myriad FinTech upstarts, and they would be wise to build on this solid foundation to show customers they can rely on their support, whatever life throws at them.



80% of consumers are more likely to do business with companies that personalize their experiences

40% of banking customers specifically will readily switch financial institutions if it means personalized service

sources: https://thefinancialbrand.com/74986/banking-personalization-targeting-trends/
https://acquire.io/blog/improve-customer-experience-in-banking/

More Tips to Help Incumbents Remain Competitive

Here are a few more quick tips for providers seeking to up their game and gain a competitive advantage in the constantly evolving financial service landscape:

1. **Invite feedback** and iterate your **value proposition** to deliver what customers seek.
2. **Embrace transparency** as a core business value to foster trust among consumers.
3. Align business goals with **process analysis** and **workflow design** to streamline digital transformation.
4. Employ headless architecture to decouple content from code to **facilitate greater flexibility** and agility when it comes to updates and rebrands.
5. **Put your customers first** by trying to solve their real problems — on terms they can afford — instead of selling them services they don't need.
6. **Measure your success** with customer satisfaction and loyalty metrics rather than sales targets.

Summary

Remaining competitive in the tumultuous financial services market requires foresight and adaptability. As we've seen, a significant driver of FinTech's success has been its customer-centric approach and stellar front-end experience.

As such, it would be foolish to ignore the powerful impact that upgrading one's customer experience can have on a bank's reputation, customer acquisition, and retention. Investing in a robust digital experience platform is the key to equipping yourself for the future of content management and customer experience management.

For more information about how adopting a headless CMS can help your institution remain competitive and deliver exceptional customer experiences, get in touch with the Contentstack team, and start your obligation-free trial today.

RESOURCES

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