



KAIHAN'S

FINANCIAL SERVICES

INSIGHTS AND PERSPECTIVE

CONTEXT

- Banking and financial services companies have traditionally been slow to innovate, but COVID-19 has forced disruption across the industry, accelerating the move to digital and the need to update legacy architecture ([Kognitive](#)).
- The sharing economy will infiltrate the financial system. According to PWC, “[It] may have started with cars, taxis, and hotel rooms, but financial services will follow soon enough. In this case, the sharing economy refers to decentralized asset ownership and using information technology to find efficient matches between providers and users of capital, rather than automatically turning to a bank as an intermediary” ([PWC](#)).
- Competition in the insurance space is also poised to expand outside of carriers to companies in other industries that will offer their own coverage ([RSM](#)).
- Cybersecurity will be a top risk facing financial institutions. In a 2016 PWC global CEO survey, 69 percent of financial services CEOs reported that they are either somewhat or extremely concerned about cyber threats ([PWC](#)).



TRENDS

1. Digital Transformation:

- The COVID-19 pandemic forced banks to enhance speed-to-market in order to deliver superior customer experiences.
- Banks continue to move away from physical branches to self-service digital channels. Digital must remain a priority. Banks need to move to digital to provide real-time insights and rapid response to customer needs ([Forbes](#)).
- Mobile and wearable technologies provide opportunities for individual customization ([Source](#)).
- Banks have had to update their legacy underwriting and risk management systems to deal with pandemic-driven increased demand for loans.

2. Focus on User Experience:

- Increasingly, customers will expect to be treated as individuals rather than segments. In the future, they will want to design their own suite of banking and financial services offerings based on goals and usage.
- “Hyper-personalization” and loyalty will be critical differentiators ([Forbes](#)). Customer intelligence will become the most important predictor of revenue growth and profitability.
- Millennials born between 1981 and 1996 hold significantly more debt as a share of net worth than any other generation. Lenders may need to change the way they interact with this generation ([Source](#)).
- AI will be used to provide natural language processing, identification of patterns, mobility, and supervised learning.

- Financial institutions have traditionally designed offerings and defined segments internally, but this model isn't working. Now they will need to ask, “What do our customers want?” and develop accordingly ([PWC](#)).

3. Collaboration:

- Unexpected partnerships and ecosystems between banks and fintech companies are forming. Initially, fintech companies were seen as competitors to slow banks who were unable to keep up with technological breakthroughs. Now, banks are partnering with fintechs to get access to enhanced marketing, administration, and loan services ([Source](#)).
- Collaboration will be the primary driver of disruption. “The biggest near-term threat to most banks comes not from fintechs but from traditional competitors better leveraging those fintechs.” ([source](#))

4. Regulatory & Security Compliance:

- Increased regulatory requirements are driving banks to use AI and robotics to address constraints and provide anti-fraud and regulatory compliance ([Source](#)).
- Customers want more control over their data, and regulations like Open Banking in the UK, the Payment Services Directive II in Europe, and commercial banking aggregator models in the US are following suit ([source](#)).
- Banks need to move operations remote in a secure manner by taking advantage of cloud technologies ([Forbes](#)). Cybersecurity will continue to be an industry focus and a key customer concern ([PWC](#)).
- Environmental, Social, and Governance (ESG)



practices will become more prevalent. Social and sustainable financing options offer banking and capital companies an opportunity to finance a sustainable future while driving market growth. An estimated \$100-150T of financing will be needed globally over the next three decades to reach compliance with the Paris Agreement ([Source](#)).

5. Moving Beyond Cash:

- Contactless payments will continue to increase, and the sharing economy will expand to financial systems. In April 2020, 27 percent of US businesses reported an increase in contactless payments as a result of the pandemic. Seventy-four percent of global customers say they will continue using contactless payment methods once the pandemic is over ([Forbes](#)).
- In the future, banking may not look like what we’re used to today. Technology will enable matches between providers and users of capital, without using banks as an intermediary. Blockchain will support a new decentralized system to provide a “public ledger” and create trust ([PWC](#)).

8PS

Leverage Point	“8Ps” of Strategy	Opportunity for Disruption	Recommended Leverage Points
<u>Position</u>	The core customers and stakeholders you serve. The financial services they need. The brand attributes that matter to them.	10	<ul style="list-style-type: none"> • How would you rank the current level of trust that your customers feel toward your brand? • What actions have you taken to support your customers and improve the lack of trust in the financial services industry? • What tools are you using to collect and interpret customer data to understand your customers? • Can your customers personalize their suite of offerings based on need and what they will use?
<u>Product</u>	Your suite of product offerings. Where you outperform competitors. Where you underperform.	3	<ul style="list-style-type: none"> • How have you altered your offerings to serve a greater number of customer segments? • What options do you have to package and personalize offerings according to customer preferences?

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<u>Promotion</u>	How you communicate with customers (including your marketing, sales, and PR teams).	6	<ul style="list-style-type: none"> • What opportunities do you have to partner with new fintech companies with enhanced marketing capabilities? • In your current partnerships, are your interests aligned and supported?
<u>Price</u>	How you charge customers. How you monetize.	4	<ul style="list-style-type: none"> • How could you combine or bundle services based on usage? • What opportunities do you have to create co-branded offers with partners? • How are you leveraging digital to enable risk-adjusted or flexible pricing?
<u>Placement</u>	How you deliver your products and services.	9	<ul style="list-style-type: none"> • How are you creating a hybrid digital and physical environment? • What is the user experience when accessing your digital services? • What opportunities do you have to partner with companies that are interested in serving the same customers to enhance both of your capabilities? • How are you using mobile to serve your customers and personalize their experience?
<u>Physical Experience</u>	The key experiences in your client journey. What they see, smell, feel, taste, and hear.	7	<ul style="list-style-type: none"> • How are you segmenting customers? Do they feel supported as individuals? • To what extent have you moved from a branch model to self-service and digital?

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<u>Processes</u>	How your core operations and processes run. The potential bottlenecks in the system.	9	<ul style="list-style-type: none"> What obstacles have you encountered in updating your legacy systems? If you operate in a legacy environment, what partners might help you transition? What are you doing to increase speed of transformation in order to move to digital and mobile offerings?
<u>People</u>	How you hire, onboard, train, and develop. What you look for in your employees. Your values.	6	<ul style="list-style-type: none"> As the physical branch model transforms, employees need to be empowered to work from anywhere. Partnering with banks gives fintechs access to top talent.

OUTTHINKERS



J.P.Morgan

- The financial giant is building an ecosystem of startups and has expanded into partnerships with fintechs to enhance digital offerings/mobile payments. It has also provided a platform and created alliances for fintech expansion in the Middle East and Africa ([Source](#)).
- In recent years, plenty of indicators have shown Big Tech would upset big banks by entering banking. JPMorgan is outthinking the competition by joining forces with them. The bank has partnered with Amazon and Airbnb to empower them to offer banking services. The platforms will be able to offer virtual bank accounts, loans, and discounts to customers who stash money in their e-wallets. Customers can process payments within the apps. In exchange, JPMorgan will handle all payment processing and cash movement ([Source](#)).

kin.

- This personal, customized home insurance startup provides homeowners insurance in regions prone to climate change disasters, like California, Florida, and Louisiana. Kin uses precision data to adjust custom coverage and pricing for homes that are vulnerable to the effects of climate change ([Source](#)).