How financial brands can tackle the fintech disruption

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This article explains how financial services brands can protect themselves from fintech disruption by digitally evolving.

- Customer experience is key: Customers evaluate their interactions or experiences with banks or insurance providers by best-in-class leaders, regardless of the category.
- Focus on educating senior personnel in digital literacy and ensuring a company-wide approach to digital transformation.
- Make sure the customer experience encompasses an end-to-end journey and co-create with your customers to get them involved.
- If you can't beat them, join them: Aviva and AXA have an accelerator scheme to develop over 200 technology businesses over the next five years, and a €200 million fund to act as an 'accelerating force for start-up companies'.

Traditional financial institutions and insurance companies are like sleeping giants and it's time for them to wake up to fintech disruption, according to Drew Graham, Director of Fintech Strategy for Standard Chartered Bank.

"They've got to go from minus 10 to 0 because they've been asleep for 30 years," said Graham of the digitization effort required for large companies to be able to handle disruption from fintech upstarts.

"We, as an industry, have to do a lot more… if you look at the industries in retail, media, advertising, communications and transport, they have all been completely destroyed or reinvented by software," he said.

"What we don't talk about is that many of the companies knew that they needed to change, but weren't able to change quick enough - my belief is that the financial services industry is actually exactly the same."

Graham was speaking at the Digital Transformation in the Financial Services and Insurance Sector webinar hosted by Econsultancy, along with Stephanie Myers, VP of Customer Experience for Prudential Assurance and Econsultancy's Research Analyst APAC Jeff Rajeck.

Drawing on findings from Econsultancy's report of the same name, Rajeck provided some insights with Graham and Myers on how major players in the FSI industries can proactively take on the disruption posed by the new fintech wave.

1. Look to other categories

"Think about how the experience your brand is providing matches up with the best, then you're a good way towards understanding what your brand is up against," said Rajeck.

Customers evaluate their interactions or experiences with banks or insurance providers by best-in-class leaders, regardless of the category.

Whether it's Zalora in retail or it's Grab or Uber for ride-sharing, the expectations are then transferred on to the brands. "An agile approach is required, but this can be a tough call for traditional brands.

2. Have strong, visionary leadership

A clear vision is an absolute must.

"There's really only one way to approach this, which is to make sure that your mandate for change is coming from the board. If it's not, then you don't have a mandate," declared Graham.

For Myers, getting the leadership team involved in transformation can be a challenge in itself.

"Anything that you can do to get them on board is essential. Without that leadership team, it's very difficult moving forward… At Prudential, we are getting all our departments involved in that. We are trying to build innovative approaches to problem solving, trying to fit in in to how we work everyday," Myers said.

According to Econsultancy's 2016 research findings from its Digital Trends in Financial Services and Insurance report, only about 1 in 4 of 850 respondents believe leaders within their organisations are very technology-literate.

"I focus on the Singapore market and there's some excellent leadership there in terms of what the financial institutions are doing, from insurance as well," said Myers.

"But I think all of the incumbents are really struggling to get the skill sets they need in-house in order to keep up with the pace of the market."

3. Transform the entire organization

"It is essential to have strong leadership who is behind this change, but you can't only rely on that, and you can't just have one silo department that's called innovation or digital, sitting off in a corner and producing their own ideas," said Myers.

What's happening at Prudential, she said, is a shift in culture that makes digital transformation possible.

"We're changing the way we're doing things. We are breaking down walls between departments. We have brought in people with new skill sets that we need in order to move forward with the future, but we are also bringing the rest of the organisation along for the journey so we are creating new values. We're getting people from across organisations involved in innovation initiatives."

4. Place the customer first

Banks must prioritise what matters to customers to win, according to Rajeck, who cited three fundamental principles of customer experience according to Aditya Gupta, VP and head of e-business at OCBC:

- Make sure the customer experience encompasses an end-to-end journey.
- Co-create with your customers to get them involved.
- Adopt a divergence and convergence approach.

"When you're working on a problem, don't immediately converge on a solution. Work instead on many different approaches at first and then converge later on what you ultimately find is the best solution," explained Rajeck.

For Myers, getting to know the customers really well is crucial in face-to-face interactions—"be it one-to-one interviews, focus groups, or co-creation sessions—is crucial.

"What you'll find is usually very surprising. Your customer is usually much more sophisticated in their expectations than you'd expect, and they are hungry for what is new and what is innovative," she said.

Econsultancy's research also found that customer experience is the top important digital priority for organisations, with 91% looking at improving it as among their top three priorities this year.

"Improving customer experience does seem to be the road that many companies are taking nowadays towards holding on to customers and preparing for those new customer-focused challenges," said Rajeck.

5. Use design thinking

"Nearly all, or 86% of respondents understand that design-driven companies outperform other businesses," said Rajeck.

"But asked about whether they do design thinking themselves, only 1 in 5 (21%) indicated that they definitely work for a design-driven organisation. Most respondents weren't quite so sure."

Being committed to design thinking as a way to re-engineer the products and stave off disruption has paid dividends for Lloyds Banking Group, said its Head of Marketing Innovation Shailen Joshi in the report.

"This process starts by empathising with the customer and looking at their key journeys before working on them with ways to optimise products and services," said Rajeck.

"It's this sort of thinking which has led Citibank along a design firm, Eight Inc, to rethink the whole idea of a branch so that they could satisfy customer journeys more efficiently," he said of Citibank's interactive Smart Banking branches, which have been a game-changer for the bank, allowing it to leap from 57th spot in customer satisfaction to the top spot in Japan, based on the Nikkei survey.

HSBC Bank, too, offers hi-tech digital hubs for customers to "complete their whole customer journey in-branch with dedicated e-service touchpoints", he said.

6. Invest in digital

If you can't beat them, join them: that appears to be the ultimate strategy for FSI players.

Rajeck pointed out the likes of insurance firms Aviva and AXA respectively have an accelerator scheme to develop over 200 technology businesses over the next five years, and a €200 million fund to act as an 'accelerating force for start-up companies'. Banks such as American Express, BBVA and HSBC, on the other hand, have dedicated at least $100 million each to their corporate venture arms.

That said, FSI firms appear to lag behind on using data to improve customer experience—and this may be hindering them from truly being digital-first. According to Econsultancy's research, only 18% of respondents from the FSI industry agreed they had access to, and had control over, customer data (compared to 30% across all industries), while 36% said they did not have access to customer data, compared to 25% overall.

For Graham, there must be a real willingness to start from the bottom for digital. "The only way to build technology that's suitable for this new paradigm is to build it from scratch," he said, referring to BBVA, Santander, ING and CBA Australia who are doing this.

He also cautioned against investing blindly, and the antidote to that is to ask many questions: "Is this fintech company trying to sell through you? Are they B2B2C? Are they trying to get their customers through you? Are they trying to sell to you? Do they fundamentally want your money, and not your customers'? Or are they trying to sell underneath you? Are they trying to get to your customer by disintermediating you?"

"We, as an industry, seem very willing to give away the one thing we have that the companies don't, which is data. Fintech companies will duck and weave, lie and bite, borrow or steal to get hold of that data. Once you give it away, that's it, the game is over."

7. Big transformations can be boring, and that's perfectly fine

"A lot of transformation I've seen happening inside incumbent financial companies is on really boring technical operations: how do you actually get your house in order, to even start having the right conversation?" asked Graham.

"There is an inverse correlation between incumbents that just seem to be innovating and those that are actually innovating. An incumbent that is truly trying to change, looks from the outside, exactly the same as an incumbent that is doing nothing. They head it down, they are quiet about it… an incumbent that is making a lot of noise in the market but is probably not changing that much on the inside, because they are focusing all of it on the outside."

Graham observed that the biggest industry-shaking disruption is now taking place in the B2B space, thanks to the recent news that Ping An, a Chinese insurance turned tech giant, is now investing in fintech firm 10x Future Technologies. The fintech firm provides them with a lean, future-proof architecture that unifies their complex data systems.

Graham also singled out Singapore-based AI software company Taiger for "doing some really scary, incredible stuff" with the NLP (natural language processing) for artificial intelligence, which in turn has the potential to sizably reduce the cost of banking operations "by a humungous amount".

"If you look at what's going on in China, the bridge between B2B and B2C is disappearing: how you focus on selling to a business, versus how you focus on selling to a customer… is disappearing."

8. Get started already

"It is very difficult to try entirely new ways of working in a traditional organisation. It's very difficult to break down the walls between silos and departments," said Myers, who advised setting reasonable timelines to take the heat off expectations.

"Don't expect to do it overnight. That said, given the pace of change, do get started right away. The journey is long. Best to start the first few steps along the path."

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