

# WHITEPAPER

## FINTECH and the digitization of Financial Services

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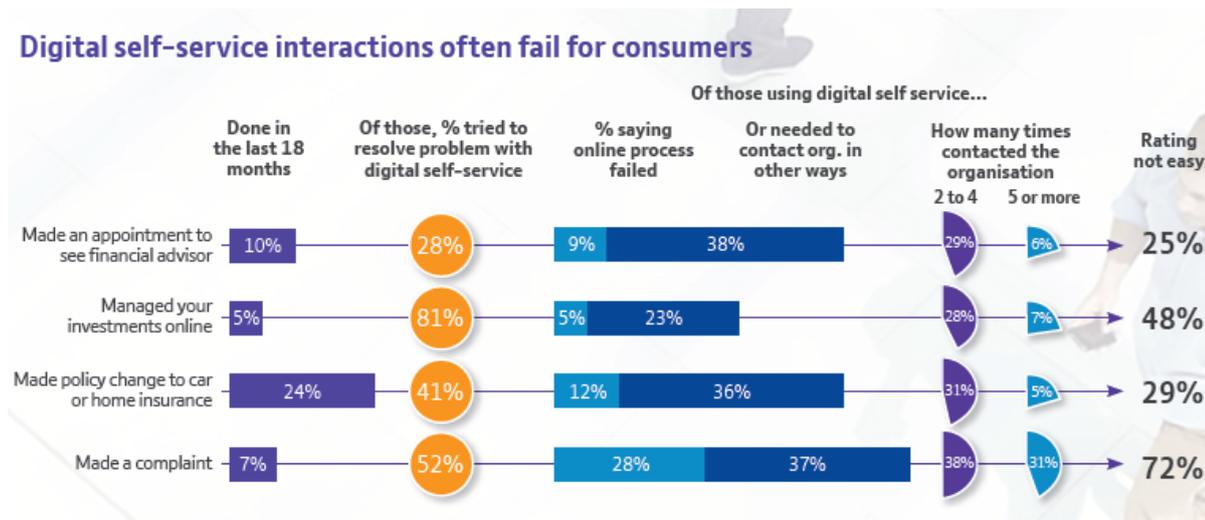
### The digital model paradigm

Financial institutions have always been at the forefront of innovation and use of new technologies. Not so long ago, the focus was about increasing automation and supporting electronic trading and payments. Central management of customer data and accounts using proprietary or third party core banking systems was the standard approach.

Changes in customer habits with more sophisticated demands are forcing institutions to adapt to a totally new paradigm. The new digital model is re-inventing the customer experience. The speed of change in mobile technology and the need to satisfy the customer base with a multi-channel re-tailing strategy is putting the banks under great pressure.

### Digitization improves customer experience

A recent study from BT and Avaya called “Ubiquity Finance – Retail Banking” highlights that consumers want banks to make digital self-service easier whilst they still request help and advice from people for more complex products. Still many interactions are failing: as shown below, out of the 41% of the customers who wanted to resolve a problem concerning their car or home insurance policy in a digital self-service mode, 48% failed!



Source: BT & Avaya, 2016

For banks, it means that more has to be done to fully leverage the benefits of digitization. A recent McKinsey report states that adopting a digital model can reduce capex by 75% and opex by 55% compared to the present model. Banks adopting a strong digitisation strategy were also able to

increase their sales and revenues by 4% to 16% through enhanced customer relationship management and increased product cross-selling. For financial products that are highly standardized and can be automated such as loans and mortgage the increase in revenues can be of 30%. The key being to constantly put the customer at the centre of the new processes to ensure the best possible user experience.

One reason of the out-dated user experience is the lack of integrated digitized services. Due to legacy IT platforms, departments working in silo, usage of fragmented customer data and inefficient CRM systems, banks are now realising that they urgently need to offer innovative services or they will lose customers.

Customer loyalty is declining as an irreversible consequence of digitalization. New technologies are enabling Fintech companies and new online banks to offer better capabilities and a comprehensive customer experience. This trend also applies to private banking where new service delivery models are developed to provide digital wealth management services through multiple channels.

New regulations like PSD2 (European revised payment service directive) are accelerating innovation and possibly the disintermediation of banks in favour of Fintech solutions capable to offer value-added services accessing multiple bank accounts of a single consumer.

The challenge for traditional banks is the need to change their digitization approach focusing on the back-office and the redesign of the whole customer experience lifecycle.

One way to achieve this goal is to leverage early enough new technologies such as Artificial Intelligence, Robo-advisor, Blockchain, API's and analytics. Banks can learn from Fintech on how to successfully reach agile business innovation and vice versa Fintech can learn from banks how to fully respond to this complex and highly regulated market.

## **Bank to Fintech bridge**

Fintech start-ups must be seen as **potential partners rather than threats** to traditional financial institutions. Today already one third of the banks took a minority stake in a Fintech venture but most of the banks are still trying to understand which Fintech could best support their digitization strategy. On the other end, Fintech are struggling to find the right contact points in banks and customer communities.

The bridge between Financial Institutions and Fintech start-ups is becoming more and more important. **mas** has a strong presence in the financial services industry and is providing the “interface” role of a specialized advisor.

## **The mas Advisory approach – interface/ bridge**

The **mas Advisory** approach to support the bank's digitization process leveraging the potential of Fintech, is composed of the following key elements:

**Analysis of the current digitalization status** of the bank including the evaluation of customer experience (voice of the client sessions) and a elaborated SWOT.

**Review and/or development of digitalization/Fintech strategy** considering the bank's strategy and business goals (voice of the business sessions), including the elaboration of a possible collaboration model with the Fintech eco-system (acquisition or partnerships) and development of a roadmap.

**Implementation of the recommended measures as program managers** from reviewing the governance model (Digitalization /Fintech Board), target scouting, including cooperation model (from partnership to M&A) and securing the seamless IT and process integration into the current landscape.

## **mas walks its talk**

Over the last years we have not only been involved and responsible for numerous digitalization projects, but have also invested in digital/Fintech ventures. We also support Fintech startups in their go to market approach (positioning, product packaging, sales channel, etc.) and business strategy as well as in business development and partnerships.

Our most recent engagement is an equity participation in a blockchain venture.

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