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DIGITAL DISINTERMEDIATION

If you are a regular reader of our E-Journal, this subject will be familiar to you and again this issue will highlight a good foundation whitepaper on it by McKinsey.

For years we have tracked FI disintermediation by traditional emerging and expanding competitors. Gone are the days when banks or credit unions could simply look around their local areas to find the threats. Still, some FI's are only touching the world of virtual customer challenges due to weak customer centricity and cultural complacency. In fact, today there are more and more cost effective, consumer sensitive means for digital delivery than ever existed with physical brick and mortar options. Yet multi-million dollar stores are continuing to open in new suburban locations in close proximity to other competitors' expensive retail floor plates.

As we transition from e-commerce to digitation opportunities, investments should be redirected and decision-making models reinvented. Technological possibilities expand faster than most FI's can keep up their customer relevance and relationships. Digital entrepreneurs at work, home and recreation want convenient digital solutions and opportunities as well as tools/devices. Big data is valuable to everyone if you know how to mine, analyze potentials, and construct successful marketing and sales attract dynamics, and then follow-up with digital servicing and wealth creation.

This is not restricted to a few but is open to a world of new players, partnerships and possibilities. Everyone is moving rapidly into a digital world which heightens a growing thirst for innovation, interests and investments.

Welcome to Digital disintermediation times many to the power of infinity (DDxM∞)

McKinsey & Company Must Read Whitepaper – Feb. 2016
"Cutting through the noise around financial technology"

In previous E-Journals we have cautioned FI's on the potential impacts of fintechs offering regular and innovative financial services. McKinsey's new whitepaper consolidates the issues and possible disintermediation. The following recaps key thoughts in the paper and we recommend that senior management study the complete report and discuss its content with fellow officers with a sense of urgency.

Historically, there has been consumer inertia towards changing FI relationships and they have focused on staying with established, enduring brands. This may now be changing with over 2000 financial-technology (fintech) companies today versus 800 in April 2015! Globally, approximately $23 billion in venture and growth capital has been directed to fintechs over the past 5 years ($2.2 billion in 2014). This is different than in the .com boom as environmental influences have changed – the financial crisis negatively affected trust in the banking system and the ubiquity of mobile devices is undermining the physical distribution advantages.

Fintechs, and others, can scale business on a public cloud and consumers are more receptive to relationship focused on origination and sales, an area where banks are estimated to earn 22% ROE versus a book of basic credit at 6% ROE.

What will fintech attackers accomplish? Those that focus on retail banking will break in and create sustainable franchises which will redistribute areas of financial service revenues. The business segments that could be at risk are consumer finance, mortgages, SME lending, retail payments plus wealth management of 10-40% of revenues in the next decade.

A key challenge for fintechs is to find/develop a way to attract customers cost effectively. To start, many fintech lenders could have a 400 base point cost advantage over banks because they don't carry physical distribution channels.

The use of data is the exciting area for fintech innovations. “Big data and advanced analytics offer transformative potential to predict next best actions”. i.e. integrating customer needs via new mobile mechanisms. Fintechs will “cherry pick” customer receptive segments – possibly millennials, SME’s and the under-banked!

Naturally, fintechs will embrace collaborative partnerships and even coopetition to engage with banks existing ecosystems. Regulations will be the key swing factor on how fintechs disintermediate in the financial services industry. Regulators in different countries will reach unique conclusions to affect the fintech competition. “A successful business model would change the basis of competition and drive revenues differently. For example, data advantages may be more important than distribution, and revenue may not rely on traditional banking spread and fee economics”.

Banks’ reactions will be varied from aggressive defenses to collaborative partnerships and sourcing capabilities that are critical with the digital, data driven world. Banks must distinguish themselves via their digital capabilities. Data and analytics that power digital competitors will open “new battlegrounds” in customer attraction, acquisition, servicing, engagement, service expansion and loyalty. Banks do not have a monopoly on the data, the analytics or digital delivery. Physical distribution will only be an option in the omni-channel digital landscape, which will be seamless across all consumer choices. Consequently, non-banks will have more impact in setting customer expectations and experiences. Everyone is in the battle to attract customers, and the recruitment and retention of digital marketing talent is a critical variable.

Next, digitizing core processes is paramount. Everyone including banks has great opportunities for simplification, digitization and streamlining operations e.g. distributed ledger technologies.

“Mobile first” is a strategic imperative together with protecting customers and accelerating innovation for agile, continuous virtual delivery.

Traditional players must meet the challenges of building next generation technology capabilities!

Organization structures and cultures need faster adaptability and agility to meet external challenges which require faster decision-making and action. There needs to be “a data-and insight-driven operating model, distinctive customer experiences, digitized processes and next-generation, technologies deployment”.

The whitepaper of course provides more details and examples worth considering in your deliberations and discussions for strategic relevance in a digital world. Changing management cultures and mindsets cannot evolve with time because the priority is in the present. Experimentation will become necessary but exciting for all areas/silos in an organization. For most, using collaborative capital will be the best choice versus trying to build what will be obsolete when it’s ready. Immediately and regularly, start and continue digital dialogues internally and externally at all levels.

U.S. TELLER PREFERENCES

The Mercator Advisory Group’s recent Insight Report – Self-Service, ATM and Other Channel Banking: Expanding My Options, confirms what customers in other countries have known for some time – preferences for depositing cheques (or checks in the U.S.) with tellers continues to decline, although consumers depositing larger valued items trust tellers over self-serve options. Still, mobile remote depositing is the fastest growing option. Young adults rely more on self-serve options, as do any highly mobile consumers. “Consumers want greater convenience!”

U.K. AUTHENTICATION SOLUTION

myPINpad released a new whitepaper, ID V-A secure and seamless authentication solution at your fingertips. In the paper an Experian survey highlighted that “in excess of 75% of abandoned transactions are caused by cumbersome identification verification (ID&V) processes proving costlier than fraud itself”.

U.S. FISERV SURVEY – EXPECTATIOINS & EXPERIENCES: HOUSEHOLF FINANCES QUARTERLY

60% of households view financial management as “must do” and consumers would benefit from outside help which is an opportunity for banks and credit unions to provide services. Most households have longstanding relationships with their FI’s: 66% give a satisfaction rating of 8 or higher whereas 28% give a perfect “10” score. Consumers want multiple customized services and are willing to work with many FI’s.

Currently, they have almost four FI relationships. Almost half admit they don't have a reliable advisor. Primary FI's websites are the most common sources for financial information. They want fast, easy to use and secure access to resources.

PEOPLE AND PLANET

Generally, most organizations in the financial industry are role models to citizens, communities and countries. Our leadership and staff dedication to current issues really makes a difference. Two important areas are people and planet.

First, people have two sides – work experiences for staff and their families and charitable endeavours for people at home and elsewhere. Over the years we have seen numerous organizations that have built and maintained "a family friend" culture emanating from the CEO's office to every employee and their families. Leaders that have people empathy and walk the talk are critical cultural catalysts that others emulate. On the other hand, our worlds cannot survive without charitable corporations and personnel who make corporate and individual commitments to help others. There are many examples with major banks and local credit unions, plus their volunteers who are recognized internally and externally for their valuable contributions to other peoples.

Today the future of our planet and everyone's role as custodians is high on public radar. Environmental priorities at work, at home and play are everyone's responsibility and concern. Some FI's are aggressively "greening" their workplaces as well as visibly support community initiatives. Governments and all organizations in general are establishing priorities and policies to accelerate the transition in an orderly manner, in most cases.

People and planet are good for business.

FLEXIBLE PACKAGING PROSPECTS

Packaging products allows any business to multiply revenue and lower costs in customer experiences. Many retailers build their business around flexible packaging by the customer from pizza parlours to insurance policy menu features.

Also some progressive FI's have always focused on multiple product events where consumers acquire many products at sales engagement sessions to drive up portfolio numbers. With the right targeting, flexibility and simplification packaging potential exists for anyone. As a caution you cannot build multiple processes on top of each other to accomplish this objective. Where FI's have done this, we see sales sessions expanding to a boredom level, turning prospects off.

Equally important as we move further into digital technologies, is the potential to expand core product capabilities. Apps are great catalysts but also changed paradigms can convert things such as cards into packages. A chip card can be a key to multiple financing needs/solutions from credit purchase, cheque cashing, payday loans, and specific purpose loans plus overdraft contingency levels – all automatic at the customers' discretion. If you wrap a collateral mortgage around the card you get the optimum lending umbrella at economical rates. On the other hand, collaborative partnerships can add new dimensions, lowering everyone's sales costs and increasing customer convenience. Integrating personal possibilities/preferences will attract consumer engagements and capture increased profitable experiences.

Technologies will continue to support packaging prospects to raise your penetration in customer relationships.

THE LAST WORD

Customer centricity starts with preference research of the present and evolving future. Whether it is banking, politics, or any other profitable or non-for-profit venture, knowing consumers tastes and intentions is the foundation of success and longevity in all endeavours. When you lose sight of who drives your success, failure is close at hand.

How does your organization cultivate a culture of customer centricity? Is it evident in your mission, visions and values plus current and future strategies/investments? Do you continuously tract consumer preferences through both primary and secondary research? Are weekly highlights shared throughout the organization? As CEO, CMO or CIO, do you have your fingers on the customer pulse?

Everyone in a business, especially ours, can contribute to the necessary cultural empathy by taking time to test ideas, processes and engagements experienced by consumers. For example, regularly test you own and competitors online application processes plus experiment with Internet searches on key consumer needs/suppliers. You and your organization can always improve customer/prospect sensitivities for services, delivery and yes, disappointments.

If we are all open to life innovation, we will expand possibilities and change paradigms. Consumers can research, analyze, select, pay for, order, track and receive virtually any product or service today in the digital wave. Consequently, businesses will be defined by how they capture more engagements of any kind and expand revenue generating experiences with dynamic partnership chains of consumer collaborations. Your digital customer consortium should include growth with consumer preferences today and in the future.

Footnote: *Hugh Oddie's new book launch – Internal Branding: A How to Guide by our Associate, Hugh Oddie, is worth the read and is available on Amazon.*