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salesforce financial services

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Restoring trust in financial services in the digital era

Salesforce

Contents

Executive summary

In recent years, the Australian financial services industry has experienced a series of significant shocks, including rising customer expectations, technological advances, new competition, regulatory challenges, and more recently, the Royal Commission. Now, with the biggest disruption of all, open banking, around the corner, it is a critical time for financial services providers to rethink their strategic priorities. They need to prepare, and do so quickly.

To understand the challenges financial services providers face, Deloitte has been commissioned to examine the key trends which are impacting the financial services industry. To better understand current customer trends, a fresh survey which included 1,005 Australian consumers, was conducted.

Top 10 key insights from customers:

Trust in financial services has taken a dive

1. 32% of customers said their trust in the financial services industry has deteriorated in the last 12 months
2. 25% of customers do not trust the financial services industry, with banking and insurance the least trusted sectors
3. Almost half (47%) of customers do not trust their own financial services provider
4. Key drivers of trust were systems to protect data and privacy, ethics and social responsibility and the belief that the firm is putting customers' interests first

Privacy and data is an increasing concern

5. 29% of customers are less willing to share personal information and data than 6 months ago

Customer expectations are outpacing firms' ability to deliver

6. 20% of customers believe the financial services industry fails to meet most or only meets some expectations
7. Customers believe their financial services providers are failing in personalised products and services, proactive advice and alerts

Customers are open to alternative providers

8. 38% of customers would consider personal financial management fintechs; this was followed by superannuation at 35%, and digital banking fintechs at 34%
9. 23% of customers would consider financial services from an airline carrier; this was followed by 22% for technology companies
10. Nearly a third (30%) of wealth management customers and a quarter of insurance customers intend to switch providers in the next 1-2 years

In this increasingly uncertain future, there is only one certainty – firms must adapt and innovate or risk becoming irrelevant.

How should financial firms position themselves for a future of increasing change and disruption?

Here are our top five tips:

1. **Manage trust.** Restoring trust will need to be an ongoing priority and will impact how firms operate, interact and deliver towards customer outcomes.
2. **Embrace data.** Data capabilities to capture and draw critical insights will be a key enabler to maintain relevance and market share in a world of increased competition and product commoditisation.
3. **Act quickly.** With customer expectations changing at increasing velocity, the new age organisation will need to challenge traditional ways of working to move at pace.
4. **Invest in the right technology.** Technologies, particularly Artificial Intelligence (AI), will be critical, but not all will be relevant. Ensuring alignment between investments, capabilities and strategy is key.
5. **Leverage strategic partnerships.** Invest in the right platforms, partnerships and ecosystems to drive strategic priorities.

In the following chapters we discuss in more detail our survey findings and research:

Chapter 1: Trust is not a campaign, it demands sustained effort
Current climate of trust towards the financial services industry and own financial providers and how firms can practically manage trust.

Chapter 2: Remaining relevant in the face of growing customer expectations
The digital trends shaping the customer experience, what customers expect today and in the future.

Chapter 3: Technology will shape the future of financial services
The new technologies which are set to influence the future of financial services.

Chapter 4: The financial firm of the future
A look into the new players entering the financial services industry, evolving business models and new partnerships and ecosystems which are emerging.

Trust is not a campaign, it demands sustained effort.

Trust is not a campaign, it demands sustained effort

Today, the reputation of the financial services industry is in turmoil. The Royal Commission has exposed significant failures of financial services providers including; failing to act in the best interests of customers, fraudulent documentation and breaches of responsible lending obligations.

The social licence of financial firms is threatened. Regaining trust can not be achieved with a one off campaign promoting corporate values. To drive meaningful change, firms need to invest in managing trust across the organisation.

1.1 The trust deficit

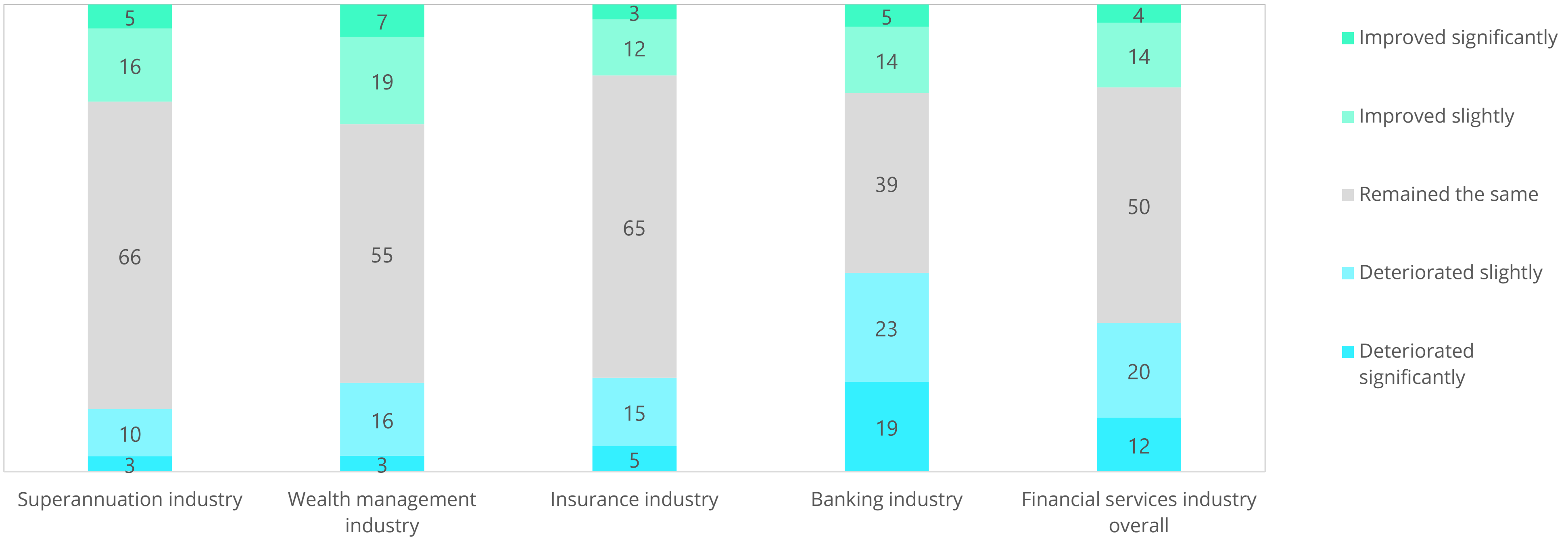
Winning consumer trust is the cornerstone of successful businesses today. Research shows that trust is a critical driver of loyalty. Trusted organisations are also more than two and a half times more likely to be high performing revenue organisations than low-trust companies (Harvard Business Review, 2016). Trusted organisations also benefit from greater enterprise resilience and can recover more quickly from shocks such as regulatory or reputational crises than non-trustworthy organisations.

Trust plays a fundamental role in the financial services industry. The inherent personal nature of the products and services provided and its potential breadth of impact on lives of customers makes trust core to the customer relationship.

Restoring trust is an urgent challenge for financial services providers. Today, the financial services industry is the least trusted industry in Australia (Edelman, 2018).

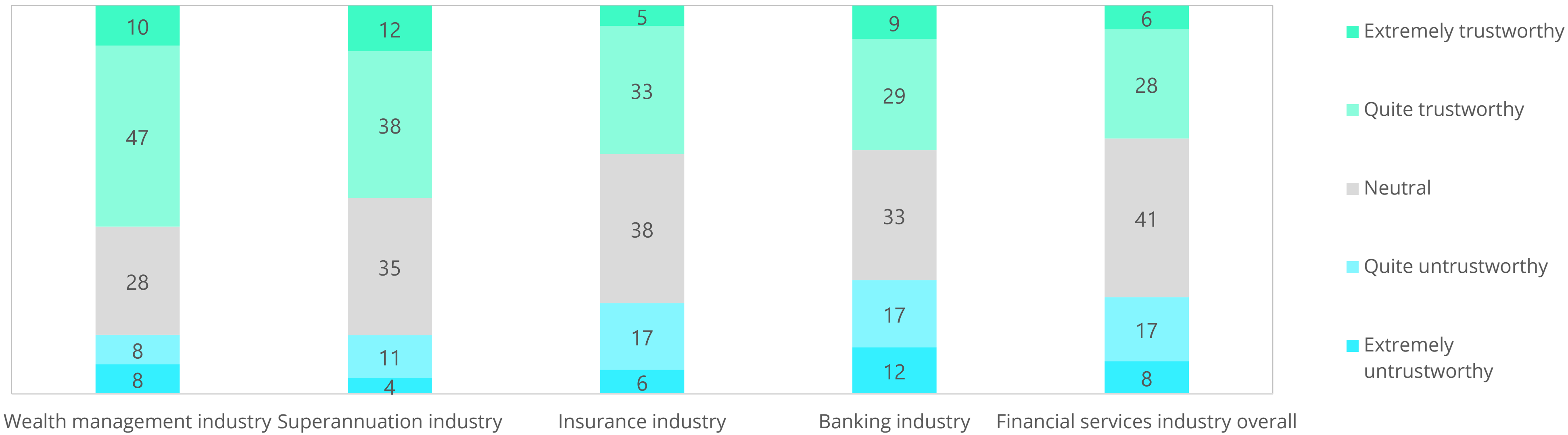
Our survey results confirm there is a clear trust deficit. Nearly a third (32%) of respondents said their trust in the financial services industry has declined in the last 12 months. An overwhelming 42% of respondents said their trust in the banking industry, in particular, has deteriorated significantly.

Chart 1.1 Change in trust in the financial services industry over the last 2 months



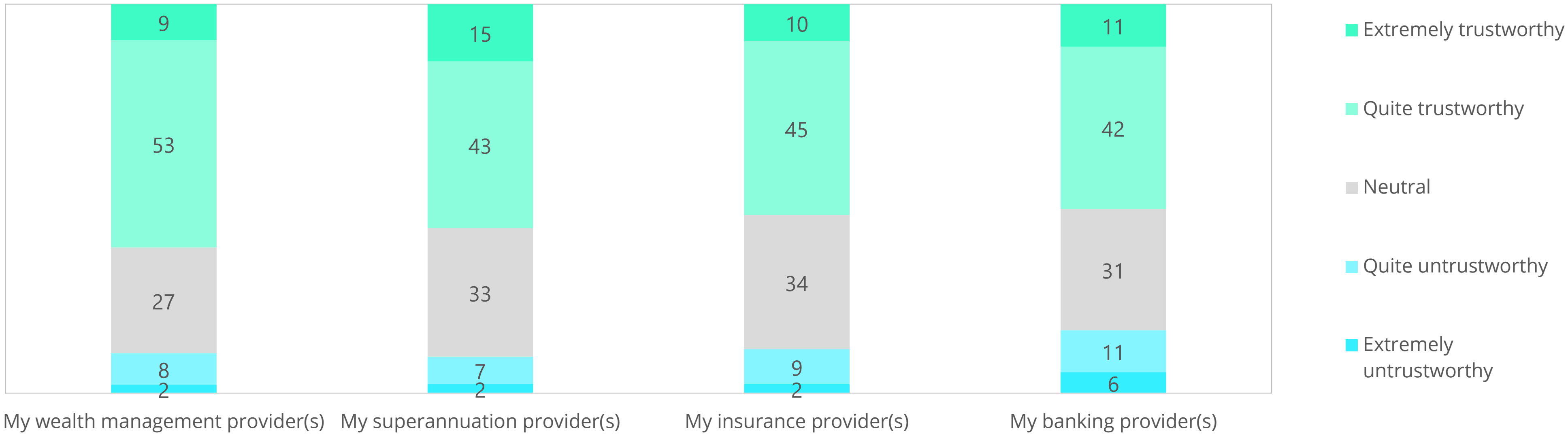
Only 34% of customers believe the financial services industry can be trusted. The banking industry was the least trusted, with 29% of respondents claiming they were extremely or quite untrustworthy, followed by insurers at 23%.

Chart 1.2. Trustworthiness of financial services industries generally



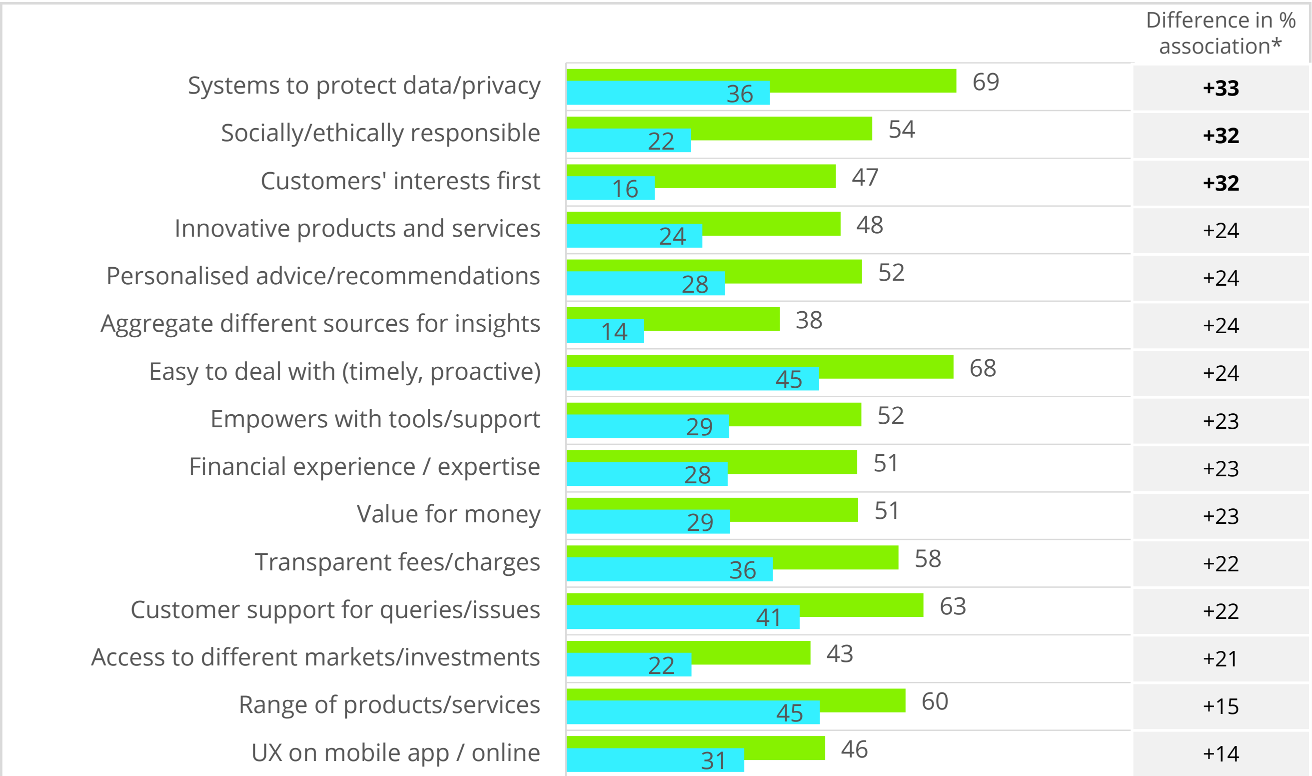
Customers were more trusting of their own financial services provider than the industry. The least trusted were banks and insurers, with 53% and 55% of respondents saying they trusted their own bank or insurer, respectively.

Chart 1.3. Trustworthiness of own financial services provider(s)



Across different financial services industries, there were different drivers of trust. Overall, our survey found that the key drivers of trust were systems to protect data and privacy, social and ethical responsibility and a belief that customers' interests were being put first.

Chart 1.4. Associations of attributes with financial services industry; ratings of industry as trustworthy versus untrustworthy



*Arranged in descending order of difference (+/-) between ratings amongst respondents who viewed the financial industry as trustworthy, and those who viewed the industry was untrustworthy

1.2 Managing trust

It is not sufficient for financial services firms to simply talk about trust – organisations must actively diagnose, improve and manage for better trust outcomes. Deloitte research has found that an organisation's trustworthiness is impacted by three pillars: ethical intent, capabilities and an alignment to customer interests.

Chart 1.5. The trust equation

Alignment

Do we work towards the same goals as our customers? Or we just think we do?

Capability

Can we keep our promise? Or do our tools, people and processes let us down?

Ethics

Do we care about people? Are we honest and transparent?

Trustworthiness

Alignment

To rebuild trust, there must be alignment between business and customer goals. Internally, this involves ensuring the organisation is working towards delivering the promises it makes to customers. This involves going beyond simple metrics such as customer satisfaction metrics, rather, firms must address the critical shift to embedding a customer centric culture.

Externally, firms need to communicate how they are delivering towards customer outcomes and actually deliver it. Alignment makes ethics and capability visible to the customer. Our survey confirms this – a belief that the organisation was putting customer interests first significantly impacted trust in the organisation.

Capability

Having ethical intent is not sufficient if the organisation cannot deliver the promises it makes. Organisations need the right people, systems and processes to execute ethical intent and deliver promises.

Having visibility of the end-to-end experience across the organisation will be a critical enabler to delivering towards these promises.

Ethics

Ethical organisations understand the promises they make to consumers and intend to keep them. In a survey Deloitte conducted, it was found that when it comes to trust, customers are far more likely to question the ethics of the organisation than its products and services – it was fifty times more important. Our survey also confirms this, with a belief that social and ethical responsibility are an important driver of trust.

In the current environment of increased cynicism and growing distrust, firms need to demonstrate their commitment to putting customers' interests first. But they need to engage in these conversations with customers in an open and transparent way – no sustainable business can deliver customer outcomes purely at the expense of business profitability. In our survey, 22% of customers said that their financial services provider failed to meet expectations in relation to being transparent with pricing.

Case study: Monzo

Monzo is a challenger bank in the UK which has experienced considerable success in building a community of loyal customers. The digital bank's biggest growth driver has been its customer base. According to the company, 80% of new customer growth comes from referrals or word-of-mouth.

Key to building trust with customers has been a strong emphasis on transparency and honesty. Monzo has a dedicated "Transparency Dashboard" on its website, which provides customers with the ability to easily access information about the company. In the Monzo community, customers are invited to vote on features they want the company to build and the product roadmap showcases when the delivery of certain features will be available. Pricing of new financial products are discussed openly in the forum to gather feedback and insights, before launch.

1.3 Privacy and data

Consumers are increasingly concerned about the security of their personal data – 29% of respondents reported a decrease in willingness to share their data in the last six months. Strong governance and controls to protect privacy and data was found to be a key driver of trust. This was also rated as extremely important when choosing a financial provider.

Given the nature of data financial services providers hold, they are particularly vulnerable to data breaches and are often key targets. Firms need to ensure appropriate data privacy systems are in place internally but also for their partners in the ecosystem.

The future of trust

Trust will be even more important when open banking becomes a reality in Australia. Under the Consumer Data Right (CDR), consumers will be given more control over how their data is used, and by whom. Consumers will be able to request their bank to transfer their transaction data to accredited third parties. The CDR will encourage free flow of information and foster greater innovation in the financial services industry, providing consumers with greater choice and confidence.

The CDR will help address some of the failure of firms in meeting consumers' expectations of transparency, by empowering customers with the information they need to make better decisions. For example, consumers will be able to share their data with comparison websites enabling them to access enhanced product recommendations. With survey respondents citing comparison websites as the second most influential source when it comes to choosing between financial services providers, after friends and family, this is likely to be a valuable use case.

Are consumers ready for open banking?

The premise of open banking is that customers are willing to share their personal and financial data to access greater benefits.

A study by Accenture conducted less than 6 months before open banking became a reality in the UK found that two-thirds of UK customers would not share their personal financial data with third-party providers.

Australians appear to be much more receptive to open banking than UK customers. In our survey, 58% of customers would share their data with their own financial providers to access to higher quality products and services. In relation to the same data, 56% were willing to share with energy providers for similar benefits, followed by telecommunication providers at 50% and airlines at 49%.

The results puts into perspective that open banking is unlikely to be an overnight big bang. There is still significant resistance to share data, which can be explained by a multitude of factors, including low levels of trust, general privacy concerns and the low perceived benefits of sharing.

Now, more than ever, financial services firms can no longer be passive recipients of customers' financial data and need to demonstrate their value-add in the data exchange. But first, they need to win back the trust of their customers.

Chart 1.6. Benefits that would encourage sharing of personal and financial data with financial provider

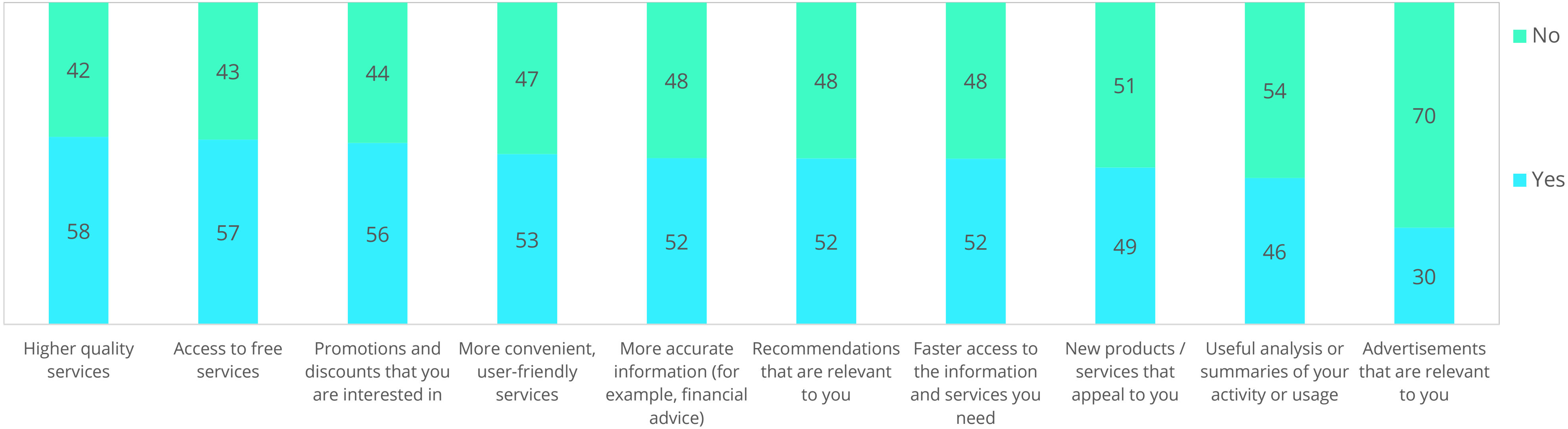
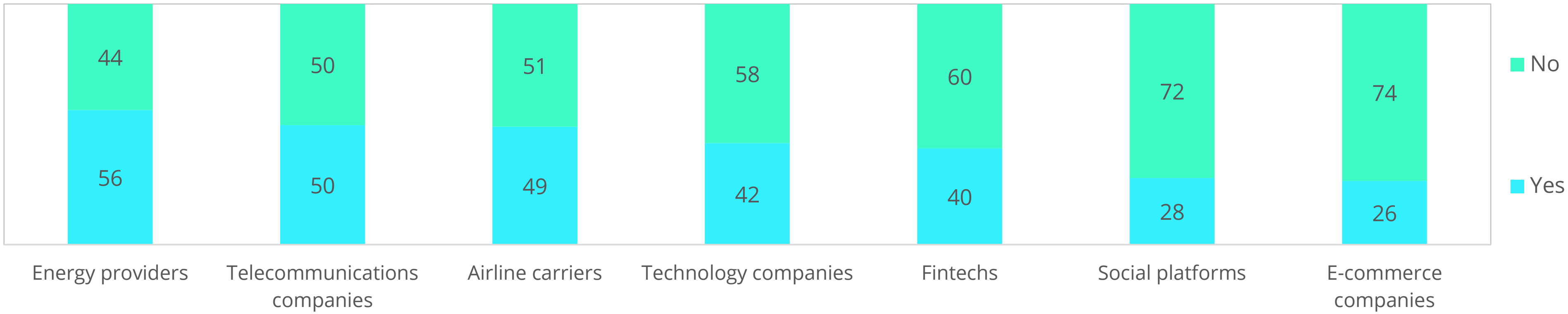


Chart 1.7. Willingness to share data with non-financial providers in exchange for similar benefits



Remaining relevant in the face of growing customer expectations.

Remaining relevant in the face of growing customer expectations

The Royal Commission has found a divergence between shareholder and customer interests where returns to shareholders have been put before meeting customer needs and expectations.

Customer expectations are constantly evolving. These expectations have been irreversibly changed by new technology offerings and are increasingly benchmarked against their leading experiences in their ecosystem of providers.

2.1 Digital expectations today

In our survey, 53% of customers believed that the digital experience with their financial providers still needed improvement. Banks performed the best in terms of user experience, while insurers performed the worst. This is consistent with Forrester's 2017 CX Index which found that Australian insurers were laggards in customer experience globally (Forrester, 2017).

Our survey reveals there are clear gaps in terms of what customers expect today and what firms are delivering. Greater personalisation, more proactive advice and alerts and more innovative products were key gaps in expectations.

Firms must act quickly to address gaps in expectations, or risk churn. Our survey reveals a correlation between customers who believed their provider failed or met only some expectations, and the likelihood of switching.

Digital and mobile

Customers expect organisations to be present on the digital channels they prefer. In our survey, 45% of customers expected to be able to access customer service via text or social channels, while 24% expected it in the next one to two years.

In a country with the highest mobile adoption rate (88%), mobile interfaces are now an expectation in Australia (Deloitte, 2017). In our survey, 76% of customers expect mobile interfaces from their financial services provider today or in the next one to two years.

Personalisation

While traditional financial products are mass-marketed, consumers are increasingly demanding greater personalisation, driven by their experiences in other industries such as retail.

Our survey shows there is a clear unmet need for more personalised financial products and services – with 24% of customers expressing that their financial services providers failed to meet expectations or only met some expectations.

The extent of personalisation needs to be considered against feasibility and viability criteria. Financial services providers need to make strategic decisions on the choices they offer to consumers, while still ensuring there is a net benefit to the business.

Proactive advice and alerts

Proactive advice and alerts was another clear unmet need – 25% of customers believed their financial services provider failed most expectations or only met some expectations. An overwhelming 59% of customers expected this from their financial providers today, with a further 20% expecting this in the next one to two years.

There is a clear demand for providers to play a greater role in helping consumers manage their financial affairs. The market is responding. Trussle, an online mortgage broker, monitors the market and notifies the customer when there is a better deal to switch to. HSBC's Beta app incorporates research from behavioural science by sending "nudges" when people overspend.

Chatbots

Intelligent chatbots have enabled 24/7 servicing of common queries and basic tasks (e.g. opening accounts, retrieving passwords). According to Grand View research, 45% of customers prefer chatbots as the primary mode of communication for their inquiries (Grand View research, 2017). In a survey with financial services firms, over a third already had a chatbot in place (Finextra, 2018).

Our survey confirms that chatbots are becoming mainstream – nearly half (45%) of customers expected their financial services provider to have chatbots today while 24% expected this functionality in the next one to two years.

Biometric authentication

Biometric authentication has provided greater convenience and security. Forms of authentication vary and include fingerprint, iris, face and voice. In our survey, 25% of customers expected biometric authentication to be available today and 31% expected this in the next one to two years.

Biometric authentication is expected to become increasingly mainstream. Today, around 42% of smartphones have integrated fingerprint sensors, with a usage rate of about 29% (Deloitte, 2018). By 2023, Deloitte predicts that 80% of smartphones will have at least one dedicated biometric sensor, and over three-quarters of smartphone users in developed countries will use some form of biometric authentication.

As advances in biometrics are made, customers' preferences for form of authentication may change. ANZ customers can now make payments using their Voice ID technology on their mobile without having to log into their banking app or remember passwords or pins.

Wearables

Wearables, from smart watches to fitness trackers to rings, have been used in the banking industry to enable customers to complete tasks such as making payments. In our survey, 17% of customers expected this functionality today, while 27% expected this as an option in the next one to two years.

Voice-activated conversations

Consumers can now interact with firms via voice such as through their Amazon Alexa or Google Home. In 2017, 37% of adults were using voice assistants daily (Gartner, 2017). In our survey, 14% of customers expected this capability today, while 30% expected it to be available in the next one to two years.

Voice in financial services

Today, voice has been used in the financial services industry for diverse use cases:

Banking: Westpac's Amazon Alexa skill allows customers to ask about their account balance, past transactions, credit card rewards points balance and the latest financial news from Westpac. Planned future functionalities include making payments or transfers via voice.

Wealth management: UBS has introduced an Alexa skill which enables customers to ask financial and economic questions such as whether U.S. equities are undervalued.

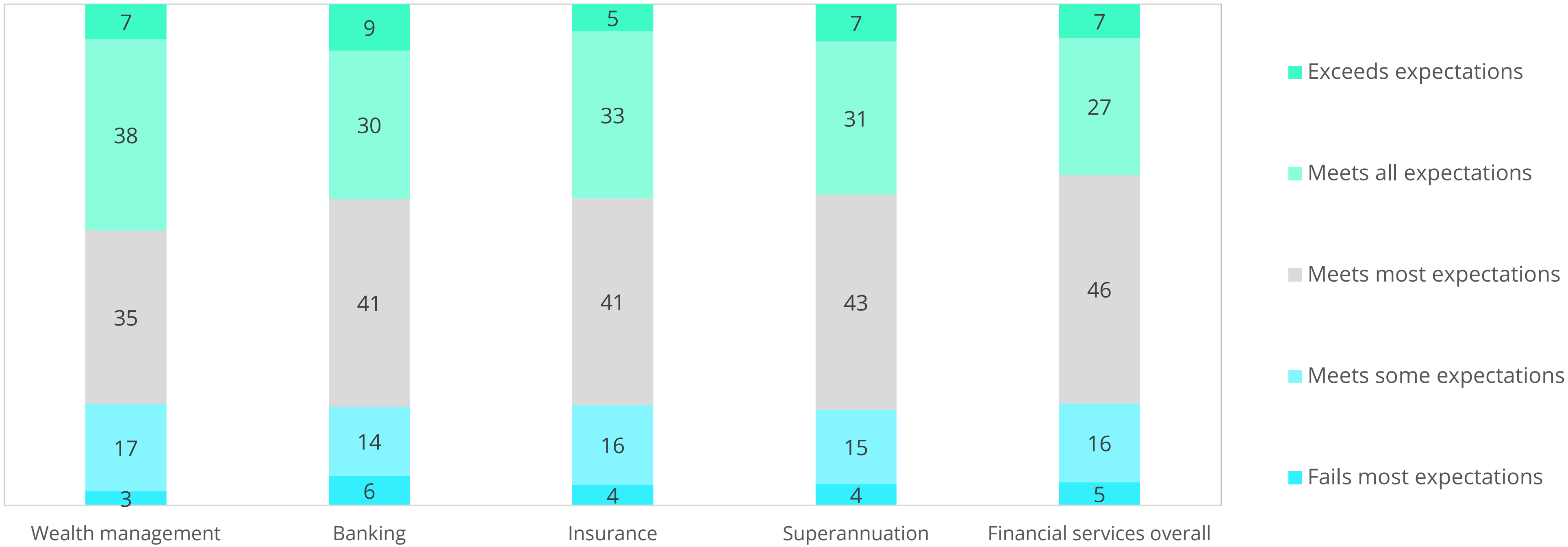
Superannuation: NAB has launched a MLC superannuation virtual assistant for Google Home which answers common questions such as; opening an account, changing investment options or finding lost super.

Insurance: Ladder, a US life insurance company, allows customers to answer a few questions via Google Home or Amazon Alexa and receive an immediate ballpark insurance quote.

2.2 Link to switching

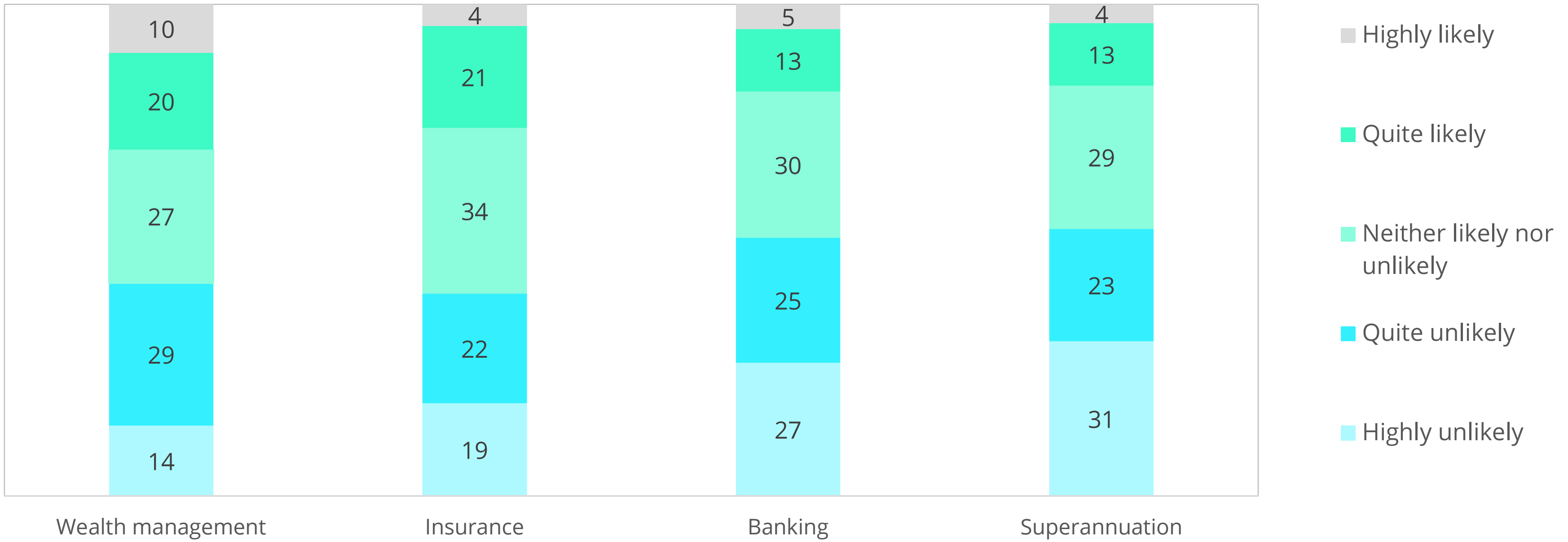
Our survey found that 21% of customers believed that their own financial services provider failed most or only met some expectations.

Chart 2.1. Extent which financial services providers meet expectations



Nearly a third (30%) of wealth management customers and 25% of insurance customers intend to switch providers in the next one to two years. Customers who reported their financial services provider failed to meet most or only met some expectations were more likely to switch across all industries.

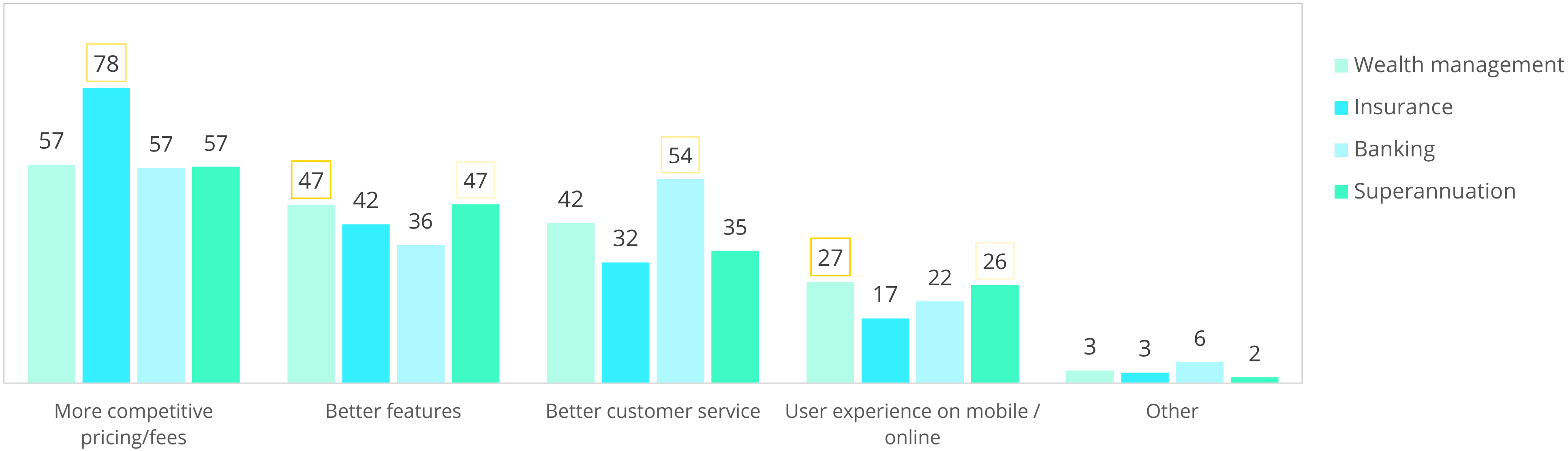
Chart 2.2. Likelihood of switching financial providers in the next 1-2 years



In respect of switching, customers were most influenced by price across all financial sectors. Insurance customers were the most price sensitive, with 78% of customers stating price would make them more likely to switch, in comparison to 57% of wealth, banking and superannuation customers.

Beyond price, a significant portion of customers said they would consider switching for better features, customer service and digital user experience. The weighting of these factors varied across the different sectors.

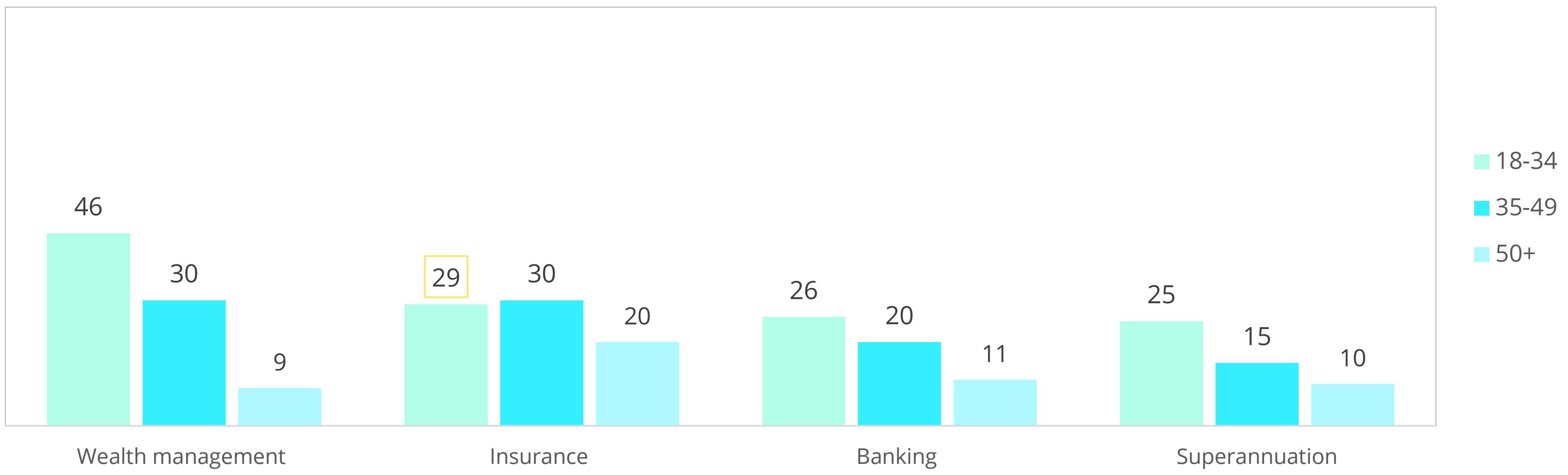
Chart 2.3. Aspects that would make customers more likely to switch to a new provider



There were also generational differences. Compared to other age groups, millennials were the most likely to switch providers. Millennials were also more likely to switch for a better user experience, while less influenced by price than the other age groups.

Our survey reinforces the need for firms to have a dual focus – while building digital capabilities to deliver against customer expectations is important, ensuring bad customer experiences are addressed and prevented today is critical. Poor customer experiences are not only more likely to result in churn, but also to be shared with friends and family, and online, where customer voices are amplified.

Chart 2.4. Percentage highly likely or quite likely to switch providers across age groups



2.3 The agile organisation

In a world of ever-changing customer expectations, organisations are recognising that to survive in this new, fast-paced, environment they need to rethink their current structures, leadership styles and talent strategies.

The lack of organizational agility was reported to be one of the biggest barriers impeding firms from responding to digital trends and changing customer expectations (Deloitte, 2017).

To address this, new ways of working have emerged, challenging the core assumptions of traditional organisations and representing a shift from:

- Functional specialisation to cross-functional teams
- Command-and-control leadership to autonomous teams
- Hierarchical structures to interacting networks

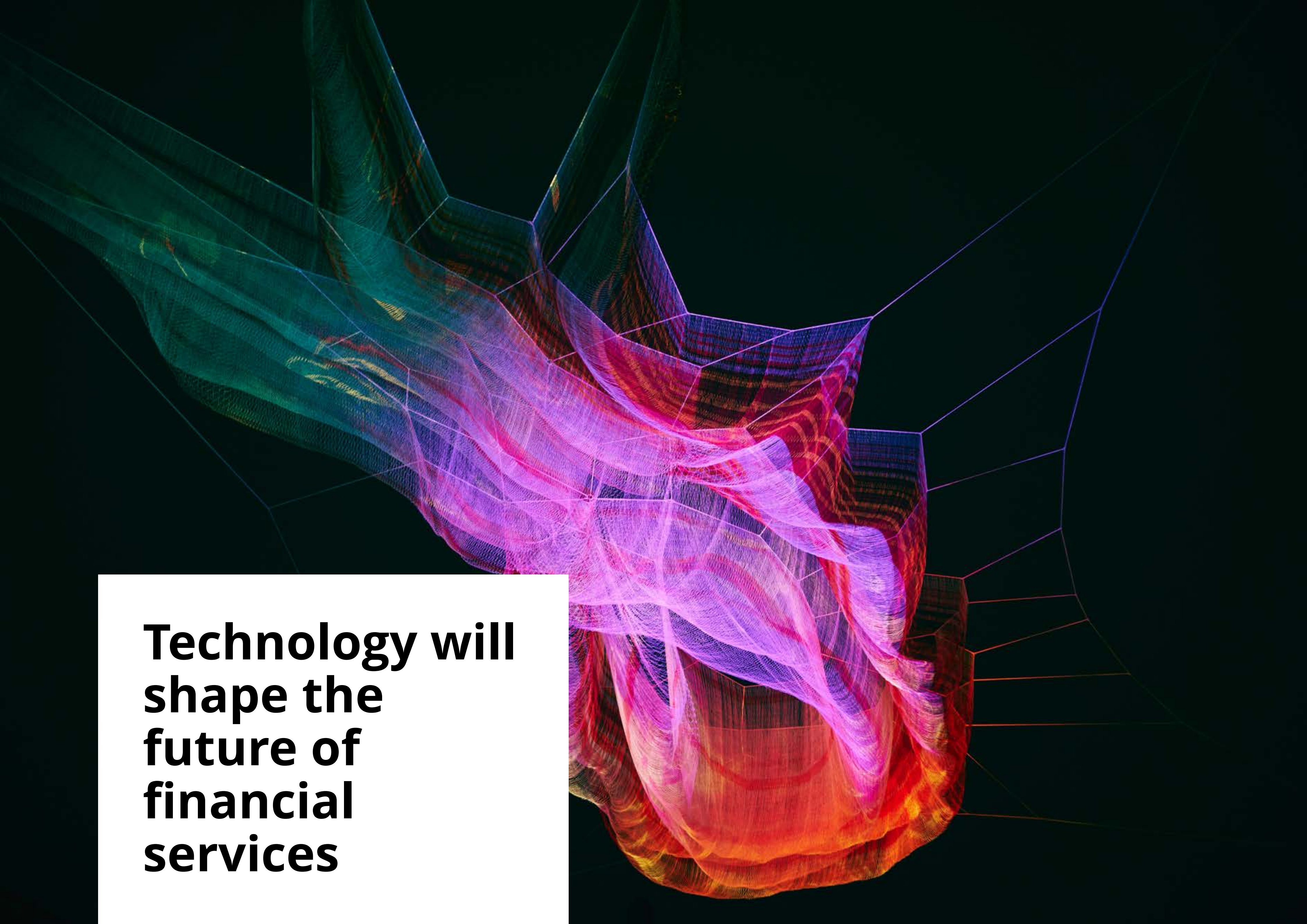
The case study on the right demonstrates how ING rewired the organisation to enable greater agility and make customer centricity core to how they work.

Case study: ING

ING Netherlands lacked speed, dynamism, and customer-centricity. To better position themselves to respond to digital trends and customer expectations, ING undertook a large organisational transformation.

The transformation involved moving away from its traditional organisational model to a business model inspired by Spotify. Instead, multi-disciplinary, autonomous teams with a mix of marketing specialists, product / commercial specialists, UX designers, data analysts, and IT engineers had end-to-end responsibility for specific customer outcomes.

The result was a more flexible increased NPS with customers, faster time to market (from quarterly releases to market to bi-weekly), increased productivity and increased engagement with employees. ING also became the most attractive workplace to work for (from 3rd to 1st).



Technology will shape the future of financial services

Technology will shape the future of financial services

The Fourth Industrial Revolution (Industry 4.0), the culmination of data analytics, AI, the Internet of Things (IoT) and more, is bringing more digital disruption to the financial services industry than ever before. Business leaders agree. In a Deloitte survey with leaders of financial services firms, 90% of respondents agreed that these digital technologies are disrupting the financial services industry to a great or moderate extent (Deloitte, 2017).

The following chapter will explore how AI and IoT in particular present both new opportunities and challenges for financial services providers.

3.1 Artificial intelligence

AI, the ability for technology to mimic human-like intelligence, has been described by leading AI expert, Andrew Ng, as the 'electricity' of the future. The potential for AI to transform all businesses is huge. Leaders are also bullish – in a Deloitte study, 76% of respondents believed cognitive technologies will substantially transform their companies in the next three years (Deloitte, 2017).

Whilst AI is not new, it has made significant strides in recent years due to the greater availability of data and advancements in Machine Learning (ML). ML, the ability for machines to learn and improve through exposure to data without being manually programmed, is forecasted to progress at a phenomenal pace this year (Deloitte, 2017). By the end of 2018, Deloitte predicts that companies will be able to perform ML using less power at a lower cost due to advancements in the underlying technologies (Deloitte, 2017).

The IDC predicts spending on AI and ML will grow from $12 billion in 2017 to $57.6 billion by 2021 (IDC, 2017). But AI adoption is still in its infancy. In a survey with cognitive-aware executives in the US, the majority (60%) only had a handful of implementations using AI (Deloitte, 2017). These early adopters, however, were already reporting economic benefits, and the benefits increased with experience using AI.

Back-office operational efficiency

AI has been used to drive greater operational efficiency in the back office. Combined with Robotic Processes Automation (RPA), it has been used to automate routine and time-consuming tasks, significantly freeing up resources to focus on higher value-added tasks.

In banking, AI has been used to conduct credit risks assessments, assist with fraud detection and regulatory compliance. In insurance, AI has helped automate claims handling processes and detect fraudulent claims.

Customer servicing and engagement

AI has also enabled firms to deliver better customer service. In a survey with financial services firms, 66% of respondents believed that customer service and retention was where AI would have the biggest impact (Finextra, 2018).

Today, many firms are already reaping benefits from using AI to service customers, including greater engagement, increased accessibility, faster time to resolution and lower cost of servicing. Gartner predicts that by 2020, 85% of customer queries will be resolved by AI (Gartner, 2017).

Figure 3.1. Applications of AI in customer servicing

Marketing and sales

- Analyse customer data to identify consumption patterns, preferences, to provide relevant products and recommendations

Customer service support

- Support human agents by surfacing relevant customer data, prompting staff with suggested ways of resolving issue based on learnings from similar situations

Call centres

- Voice biometrics to authenticate customer and reroute customer to the relevant department
- Detect emotional tone in customer's voice and divert to human operator if it senses negative emotion

Chatbots

- Answer basic queries and tasks
- Anticipate customer needs
- Deliver proactive alerts and offers
- Provide tailored product recommendations
- Divert more complex queries to human support agent

Case study: Valiant Finance

Valiant Finance has created a digital marketplace for business loans that brings together over 100 loan products from 80 lenders.

Leveraging intelligent loan matching and ranking algorithms, Valiant matches businesses to the right lending product. Once the algorithm has produced a recommendation, a customer can choose their own journey and self-service via a digital application process or receive guidance from Valiant's tech-empowered Credit Solutions team.

This combination of digital and assisted channels and the use of engagement automation creates an unparalleled experience for time-poor business owners and a unique level of scalability in the documentation and process-heavy business lending space.

The untapped opportunity of AI

While AI can be used to help businesses do things faster and cheaper than before, the biggest opportunity of AI in financial services is arguably still yet to be unlocked.

This untapped potential relates to using AI to discover novel insights and transform the way things are done. For example, finding better ways to service and engage customers, smarter, data-driven product development, or even new ways which the firm and its partners could more effectively work together.

An example of a company using AI to inform product development is Netflix. Netflix uses AI to analyse user streaming data, metadata, what is trending in media on the internet, to design a criterion to score content ideas for its original own content. Its success is reflected by Netflix's original content rating on average 11% higher than its licenced content.

Applications of AI in this realm is rare in the financial services context. While more technically complex, they have the potential to reward financial services providers with more sustainable forms of competitive advantage.

3.2 Internet of Things

IoT, the ability for objects to connect and exchange data, is another technology which has the potential to transform financial services firms' customer relationships and restore trust. The rapid adoption of connected products such as wearables, smart speakers and increasing number of products which have in-built connectivity has resulted in a huge growth in the IoT space.

Growth in IoT-powered objects is predicted to continue. The average Australian household has 17 connected devices – by 2022, this is predicted to more than double (Telsyte, 2018).

IoT has paved the way for new business models in insurance and provided insurers the opportunity to better engage with their customers. It has also provided banks the opportunity to drive higher levels of engagement with their customers in the form of more personalised and contextual offers.

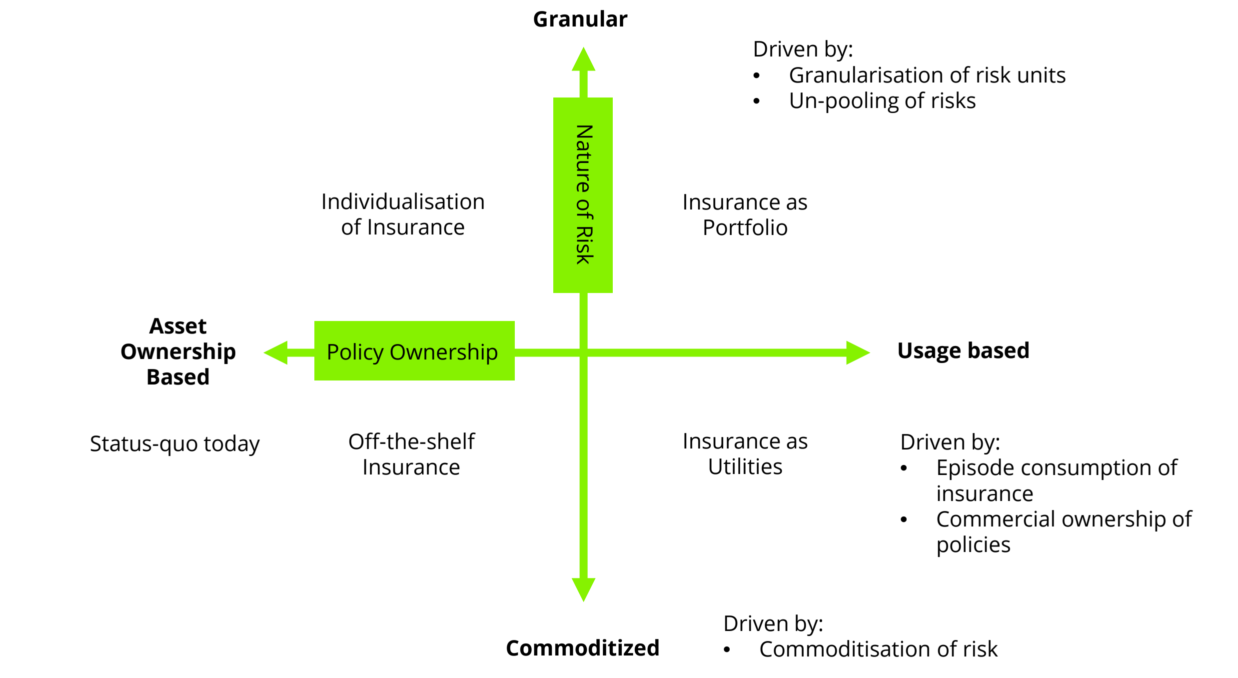
Usage-based and on-demand insurance

In the insurance industry, IoT has enabled the introduction of new usage-based insurance propositions. This shift from asset-based insurance is accelerated by the sharing economy, with consumers' increasing desire for on-demand products and services.

IoT technology enables car insurers to monitor risky-driving behaviours and introduce behavioural nudges to encourage safer driving. Insurers who have access to data about not only the policy holder, but aggregate data about a community of users, can leverage this information to influence customer behaviour. For example, research has shown that 'peer-pressure' related nudges are the most effective in influencing behaviour.

IoT also presents opportunities for insurers to restore trust with customers. While traditionally insurance is a reactive product, with little to no customer interaction other than at the claims stage of the journey, IoT-driven insights enable insurers to provide more pro-active advice, to help customers prevent losses and avoid claims in the first place.

By reducing claims, insurers can not only benefit from increased profitability but also improve customer retention rates due to reduced premiums and higher engagement. For example, smart home sensors would potentially detect level of moisture in a wall, and alert homeowners of any pipe leakages. This would save the insurer from a potentially huge claim while saving the homeowner from considerable inconvenience and the loss of valuables.



Source: Deloitte (2016) Turbulence ahead: the future of general insurance

Personalised banking

As our survey has found, customers are seeking greater personalisation in financial services. The growth of IoT-powered devices and consequently richer customer data presents the opportunity for banks to do this. By leveraging data analytics and location-based data, banks can engage customers at critical points in time, to not only encourage a transaction but deliver a more personalised customer experience.

Hypothetical examples of personalised banking leveraging IoT:

Scenario 1: A customer who has booked an overseas holiday and has low savings in their account is informed of a round-up feature which rounds up their transactions and puts it into a separate holiday savings account. They are offered a special credit card which has competitive FX rates, discounts on ATM withdrawals and late repayment options.

Scenario 2: A customer walking into a car dealership is notified via their banking app of how much financing they are approved for. They are provided details of different repayment options and their impact on their current monthly spending, based on their consumption patterns.

3.3 Data analytics

Digitisation and technology has resulted in more data being generated than ever before. Near internet ubiquity, new devices with IoT embedded capabilities, and an expanding range of product and service providers has resulted in an explosion of data. By 2025, the total volume of digital data is expected to increase tenfold (IDC, 2017).

Managing the velocity and volume of data will be a challenge. Firms must manage IT infrastructure integrations to ensure real-time data flow across the business. This may require modernising in-house legacy systems, building or buying new systems, or collaborating with third-parties. Firms may need to establish governance and processes to harvest the data so it is usable for the business. For example, ML currently requires labelling the data so that it can be used for training purposes.

While financial services providers have traditionally enjoyed exclusive access to a wealth of customers' financial data – few have used this data effectively to gain strategic advantage. The open banking rules will further open up customers' financial data to third parties. In this data-rich world, data will no longer be as much of a competitive advantage – rather, the ability to manage and draw actionable insights from the data, will be.

While open banking presents its challenges, it is also an opportunity for financial services providers. With consumers' consent, financial firms will also benefit from access to greater financial data from their customers. But this time, they can not afford to be complacent. They will need to develop capabilities to extract valuable and relevant insights, and act on it. Only then will they be able to deliver more and experiences and innovative products and services to customers.

Financial firm of the future

Financial firm of the future

Now, more than ever, is a critical time for financial services firms to rethink their business strategy. To defend market share, firms must find ways to add value to the customer relationship in ways they did not have to before. To grow, firms need to continually innovate on their offerings and develop new capabilities.

But they do not have to do this alone. Increasingly, firms are joining forces with others to arm themselves with new capabilities, unlock greater value for customers, access new markets and better position themselves for future disruption.

4.1 New platforms, partners and ecosystems

Today, financial services firms face increasing competition from new fintechs but also non-traditional players who seek to expand their offerings. The open banking rules will further lower barriers to entry, and is predicted to lead to greater disintermediation in the value chain and pressure on profit margins.

To survive, financial services firms will need to develop deep capabilities and networks, and have the right platforms, partnerships and ecosystems.

To deliver against customers' digital expectations of the future, firms will need to invest in appropriate customer engagement platforms. Leveraging data analytics effectively to derive valuable insights will be critical to deliver more personalised experiences.

Strategic partnerships are likely to be increasingly important. In an increasingly competitive market, we are seeing more and more partnerships being formed in the market, collaborating to deliver more innovative value propositions and experiences. Open banking will help facilitate integrations between banks and non-banks and may see the emergence of new, innovative business models.

Open banking should also see the shift from traditional industry silos to richly networked ecosystems of providers of multiple types, industries and sizes. Together, these ecosystems collaborate together to deliver more innovative go-to-market offerings and experiences previously unimaginable before. The experience of Europe will be a useful case study for Australian financial services firms.

Learning from the European Union (EU)

In Europe, the arrival of open banking earlier this year has already seen a new wave of innovation. Notably, there has been a shift from the traditional banking business model and the emergence of the marketplace model and platform model.

In the marketplace model, banks analyse customer data to tailor offers of third party services and earn commission when consumers sign up. In the platform model, banks open up their infrastructure to others and provide banking as a service. For example, Fidor Bank has set up Fidor Solutions which offers third parties the ability to leverage their white-labelled banking solutions. Using this service, O2,Telefónica, a German telecommunications company has extended their offerings to provide banking services to their customers.

Compared to their EU and US counterparts, Australian banks have so far been sheltered from competition, allowing the large banks to earn substantially higher Return on Equity. However, like the EU, open banking is coming and will put increased pressure on incumbents to innovate or risk losing market share. Along with its threats, open banking offers new opportunities – but banks need to be ready to embrace it.

4.2 The rise of fintechs

In recent years, fintechs have achieved exponential growth in Australia. In 2017, fintechs reported an average growth in monthly revenue of 208% (EY, 2017).

Fintechs have offered more innovative and tailored financial solutions as alternatives to traditional mass-marketed financial products. AI algorithms have enabled customised products and policies to be generated instantly, while product design is increasingly shared. For example, Sbanken, a Norwegian bank, allows customers to sign up in a developer portal where they can design their own banking platform based on their needs.

Fintechs have also transformed how consumers buy and consume financial products, delivering seamless and delightful digital experiences. For example, Lemonade, a US home and contents insurer, leverages AI and behavioural economics to design its frictionless on-boarding and claims experiences. Their seamless experiences are particularly appealing to younger markets. According to Schreiber, the CEO, 87% of their customers are first time insurance buyers.

Their business models are also different. Unlike traditional banks which offer the full range of financial services themselves, fintech banks are embracing strategic partnerships to offer customers more competitive and innovative offerings. For example, Revolut, a digital challenger bank, offers mortgage broking services with Trussle, credit lines through peer-to-peer lender Lending Works and geo-location travel insurance underwritten by Thomas Cook Money.

Case study: Study Loans

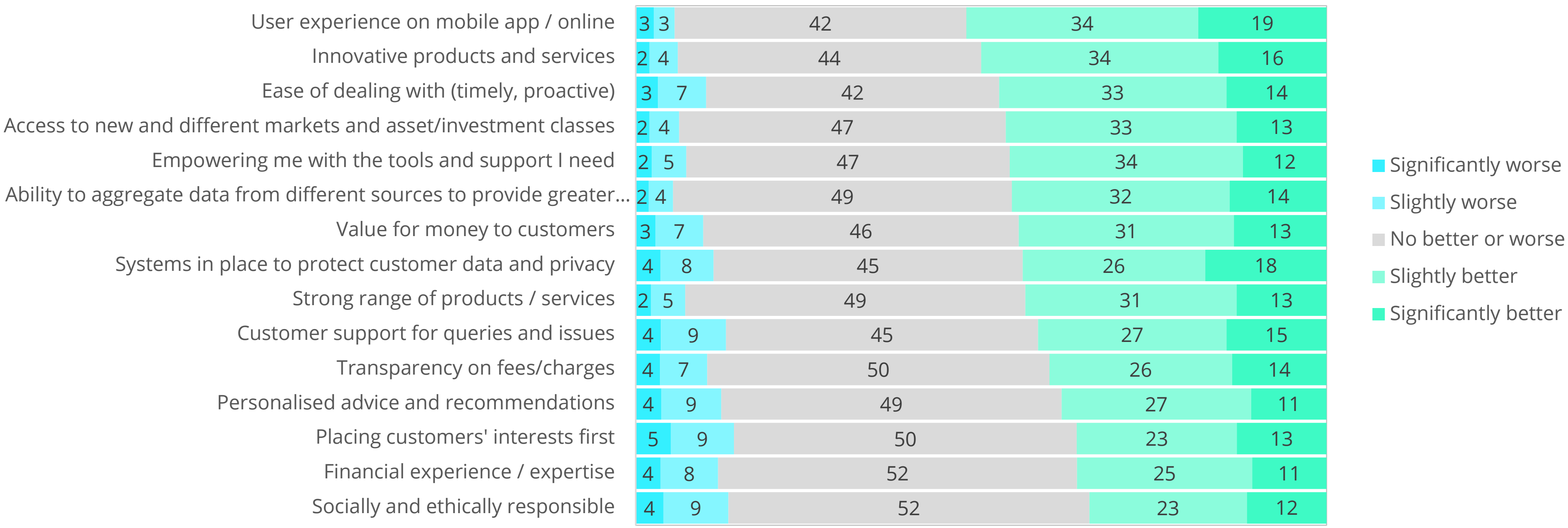
Study Loans is an education fintech provider dedicated to financing student loans in Australia. The company is focused on only funding loans for courses and skills which are in demand in the market, and deliver job outcomes for students. Currently, Study Loans is experiencing 40% month on month increase in loan applications.

Core to Study Loan's business model success is its ecosystem of education providers. Students are able to access a wider range of financing options from trusted educational providers with more flexible options and terms than traditional lenders.

Fintechs were perceived to be superior in many attributes in comparison to traditional providers, but in particular:

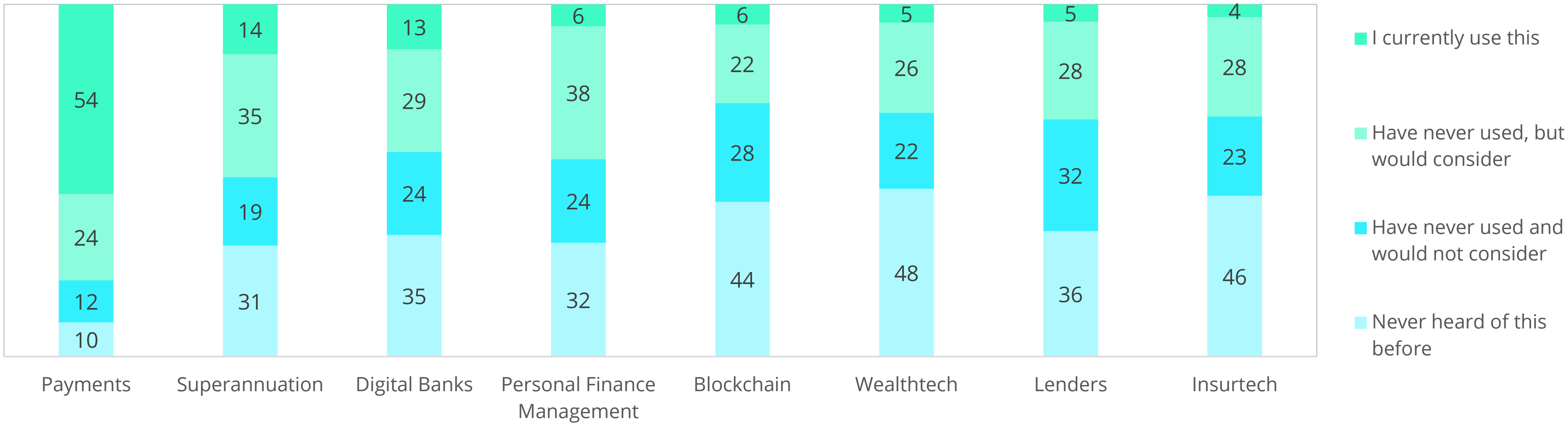
- **53%** believed fintechs will deliver a **better user experience**
- **50%** believed fintechs are **more innovative**
- **47%** believed fintechs were **easier to deal with and more timely and proactive**

Chart 4.1. Expected benefits of fintechs over traditional providers



Despite their growth, the adoption of services and products from fintech companies in Australia is still relatively low, with the exception of payments. Our survey reflects key challenges fintechs face today, including gaining awareness and trust. A substantial portion of respondents were unaware of the various fintech offerings available in the marketplace, while only 22% of respondents believed that fintechs were trustworthy.

Chart 4.2. Usage, consideration, and awareness of fintech types



Respondents were, however, interested in particular fintechs. There was a significant interest in personal financial management fintechs, with 38% of respondents saying they would consider using these types of fintechs.

The increased consumer demand for banks to offer services to help with money management, beyond simply providing financial products has been recognised in the market. Banks are providing spending insights and goal saving functionalities linked to their transaction accounts. Others, are partnering with others to provide this functionality. For example, Macquarie has enabled integration with Pocketbook, a personal finance and budgeting tool.

There was also an appetite for superannuation fintechs, with 35% of customers expressing interest. Indeed, superannuation was also seen as the least innovative financial sector by respondents.

Finally, around a third of respondents would consider using insurance fintechs and digital banks, which had interest levels of 29% and 28%, respectively.

Case study: Moneytree

Moneytree is a personal finance app which displays a user's bank accounts, credit cards, superannuation funds, and loyalty programs in one platform. In the past 6 months, the Moneytree platform has added 20% more enterprise partners, for a total of 40; increased premium users by 25%, and grown its user base by more than 40%.

The Moneytree app empowers users to have greater visibility and control over their financial data. By connecting their different financial accounts to the platform, users can track their total spending and have a portfolio view of their investments.

The platform aggregates data from over 3000 discrete sources, providing a single, secure, financial data API connection for small businesses and enterprises.

The benefits of partnership

More than 90% of banks and 75% of fintechs expect to partner with each other in the future (World Retail Banking Report 2017).

Incumbents are quickly realising the value of partnership, including:

New capabilities: Incumbents can leverage the latest technological capabilities quickly without having to build themselves – this enables them to bring innovation to market faster, and respond more quickly to customer's ever-changing demands.

New markets: Incumbents can access new markets previously difficult or impossible to access. For example, they can leverage the brand of fintechs to target younger segments which are otherwise difficult to engage under their own brand.

New product and service offerings: Incumbents can extend the breadth and depth of their product offerings to customers.

4.4 Emerging players

Non-traditional competitors, from social media platforms like WeChat, technology companies like Apple and e-commerce giants like Amazon, are also eyeing the financial services space.

Many of these players strive to be the platforms that consumers deal with daily for all facets of life. By enabling customers to make payments within their services, customers do not have to leave their ecosystem.

Providing financial services allows these non-traditional players to access valuable transactional data. Combined with their existing wealth of lifestyle and behavioural data, they have enormous capability in delivering more relevant and enhanced products and experiences for customers.

Are consumers interested?

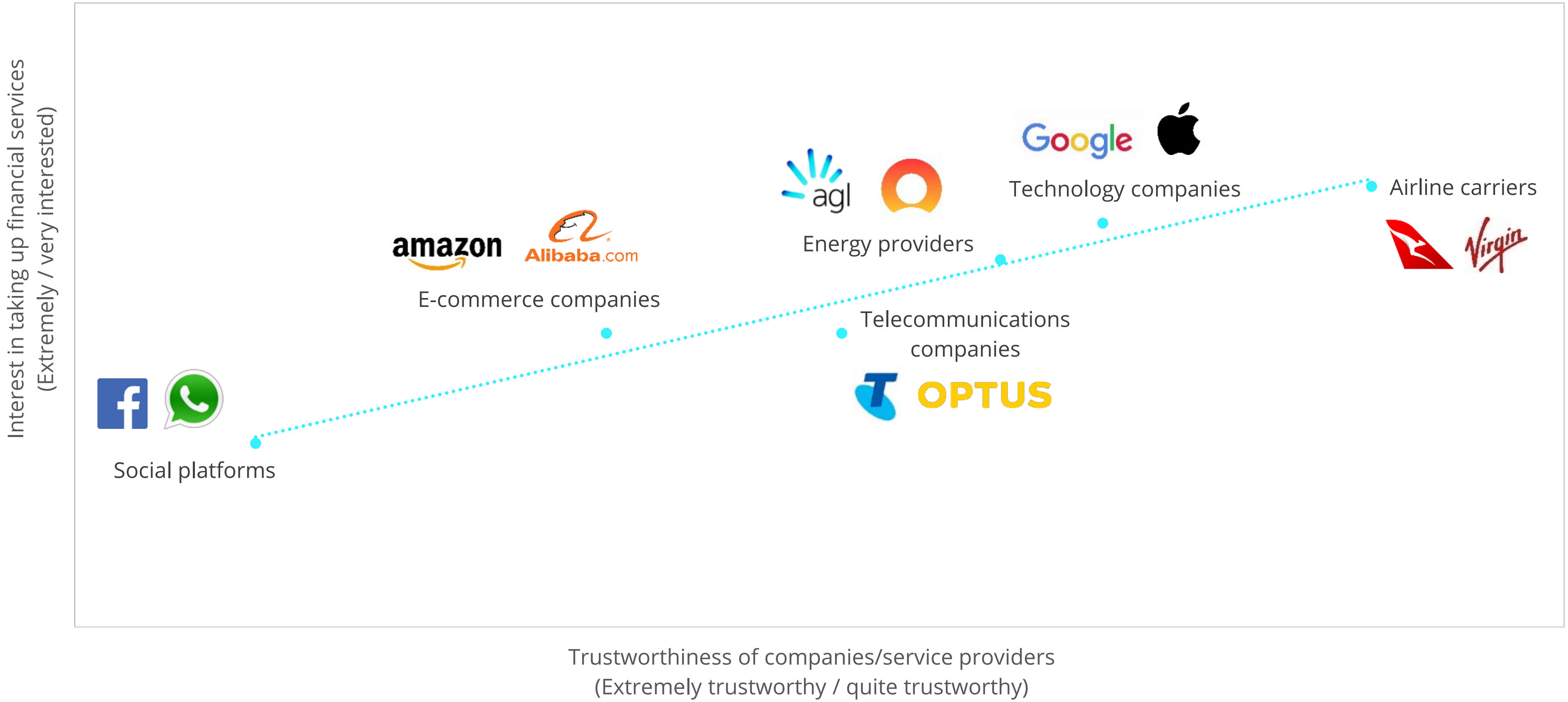
In our survey, interest in taking up financial services from non-traditional providers was relatively weak. Respondents were most receptive to airline companies, technology companies and energy providers, which had similar interest levels, at 23%, 22% and 21%, respectively.

Note: for the purposes of the survey, Amazon and Alibaba were provided as examples of "e-commerce companies", while Apple and Google were provided as examples of "technology companies".

Despite much discussion around Amazon and Alibaba being threats to banks, 55% of respondents said they were not interested in taking up financial services from these players. Interestingly, e-commerce companies were also the second least trusted by consumers. This result may be due to the low level of interactions Australian consumers have with these brands.

Appetite for taking up financial services from these non-traditional providers closely correlated with the level of trust towards these providers, as seen in Chart 4.3.

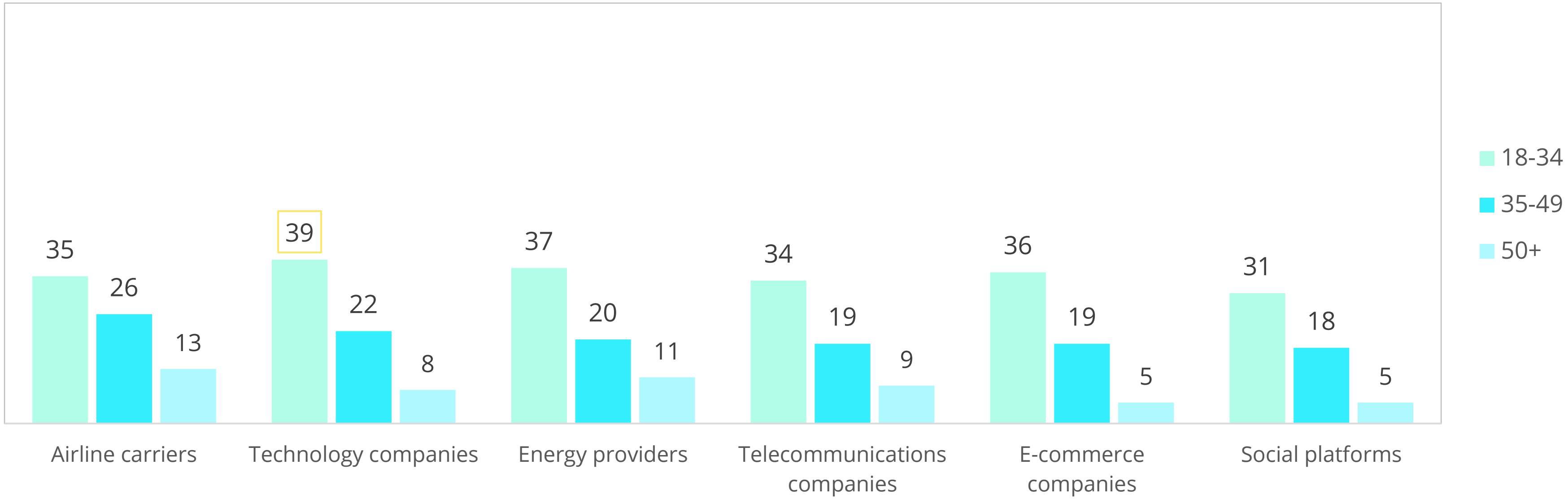
Chart 4.3. Interest in uptake of financial services vs trustworthiness of non-financial providers



A closer look, however reveals clear generational differences. Millennials were most interested in financial services from technology companies, with 39% citing they would consider services from these providers. This was followed by energy companies and e-commerce companies, at 37% and 36% respectively.

These results reflect a genuine concern that traditional financial services firms may lose out on millennials to technology giants if they do not effectively engage and deliver to their expectations.

Chart 4.4. Interest in uptake of financial services from non-traditional providers across age groups



Time to act is now

The customer survey results and the market trends relays a clear message for financial firms – the time to invest in rebuilding trust and engagement with customers is now.

To do this requires a cultural shift which puts customers at the core – this itself, is a difficult task and should not be underestimated. Fully embracing customer centricity should impact all levels of the organisation, from top-level strategic decisions to each interaction with the customer.

Identifying new ways to better understand and engage customers should be a ongoing priority in order to stay relevant. And in a future of open banking and increasing uncertainty, we believe investing in the right systems, partners and ecosystems will be key to survival.

Appendix

The report includes fresh customer insights informed by a unique survey of 1,005 customers in Australia. The survey was designed by Thrive Insights and fielded by Research Now.

The survey questions were intended to provide insight into:

- Customer attitudes and expectations of financial services firms
- General attitudes towards privacy and data
- Expectations of the customer experience today and in the future
- Perceptions towards fintechs and non-financial services providers

There was an equal representation between female and male respondents and a spread across different ages, geography and income brackets.

	Cases	Weighted
Total sample	**1,005**	**100%**

Gender		
Male	496	49%
Female	509	51%

Age group		
18-34 years	309	31%
35-49 years	272	26%
50+ years	424	43%

Generation		
Gen Z	137	12%
Gen Y / Millennials	269	28%
Gen X	250	25%
Baby Boomers	236	21%
Silent Generation	113	14%

Location – State		
New South Wales	328	32%
Victoria	250	26%
Queensland	200	20%
South Australia	67	7%
Western Australia	113	10%
ACT	14	2%
Tasmania	28	2%
Northern Territory	5	1%

Location – Metro		
Metropolitan	652	67%
Non-metropolitan	353	33%

Household income		
Up to $60K	394	40%
$60K to $100K	249	24%
Over $100K	282	28%

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