

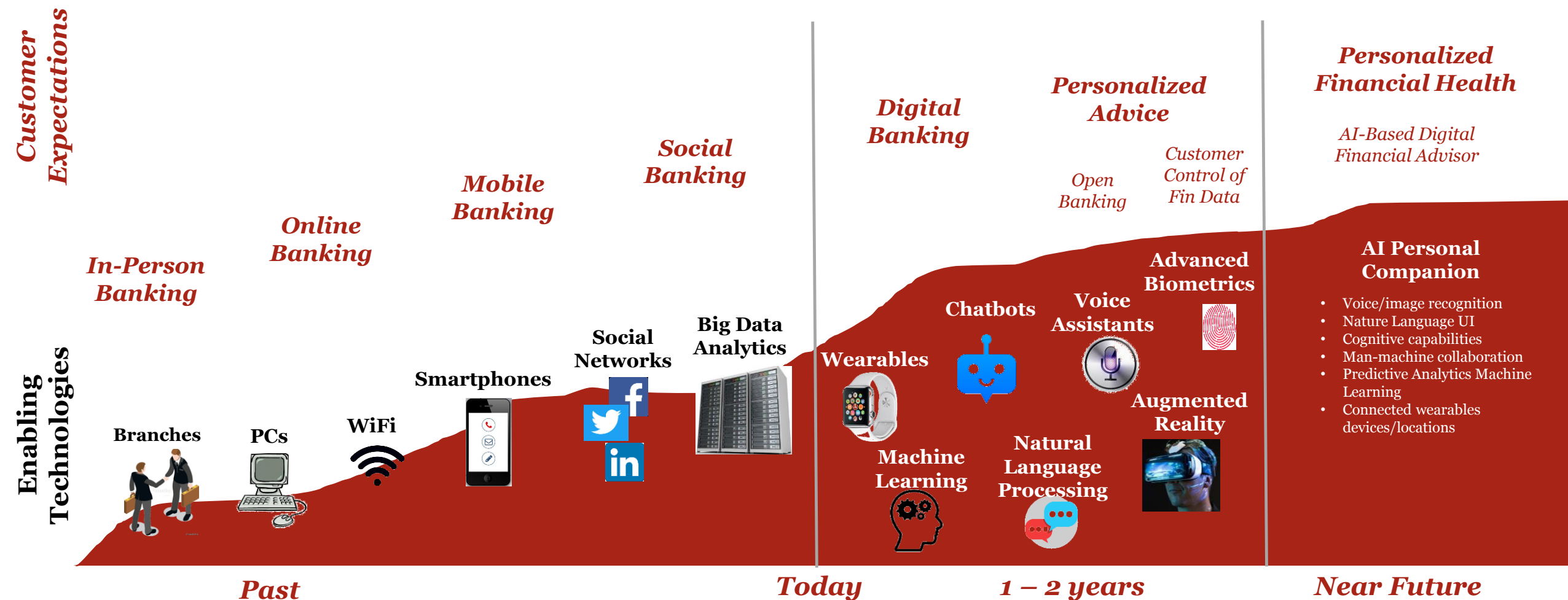
September 2018

# Innovation in Banking

How Customer  
Preferences and  
Fintech Innovation  
are transforming the  
Retail Bank



# Technological innovation and changing customer expectations continue to disrupt and reshape how retail banks do business



## What we are hearing: Customer trends in “digital” retail banking

### Trends

### Description

#### Declining Engagement

**Frequency of interactions between customers and their banks is declining**, making each touchpoint even more critical for optimizing value to customers and the bank

#### Migration to Mobile

**Consumers continue migration to mobile banking**, with 62% of smart phone users indicating they are mobile banking users

#### Human Contact Matters

**82% of consumers prefer technology as a compliment to human interaction** rather than as a standalone offering - especially during initial acquisition and onboarding activities

#### Bank Selection

**Convenience and familiarity motivate primary bank selection** for deposit accounts, but additional products and secondary deposit accounts **are driven by rate and features**

#### Financial Goals Matter

Understanding consumers’ specific **financial goals, which differ greatly by segment, is critical to effective targeting and messaging** along with affluence, life stage and product and channel preferences

**Market leaders are designing for a digital future, including optimizing the physical experience to drive meaningful customer interactions**

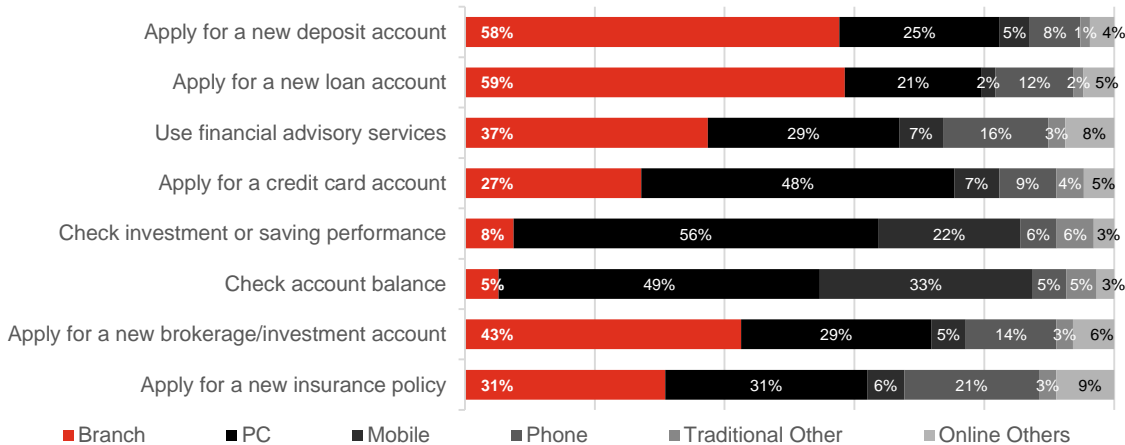
Source: PwC 2018 Digital Banking Survey



# While interactions are less frequent, physical location is still critical to building financial relationships

**1** Physical location still constitute an important interaction point & remain important for relationship building...

Consumers' Preferred Channels



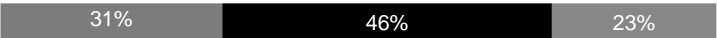
**2** .....and many customers consider physical coverage in their area a pre-requisite for opening a financial relationship.....

**65%** portion of consumers who feel that having local physical branches is important for their bank

**25%** portion of consumers who would not open an account with a bank without local branches, regardless of any benefit

**3** ... however, the majority of these customers already hold or would consider opening accounts at direct banks...

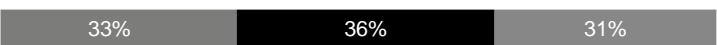
Top 4 Banks



Regional



Credit Unions/Community Banks



■ Currently Hold Account w/ Direct Bank ■ Would Consider Direct Bank ■ Would Not Consider

**4** ... for the right offer

Attractive product interest rates



Credit Card Rewards



No ATM Fees



Bonus or reward points for using self-service channels



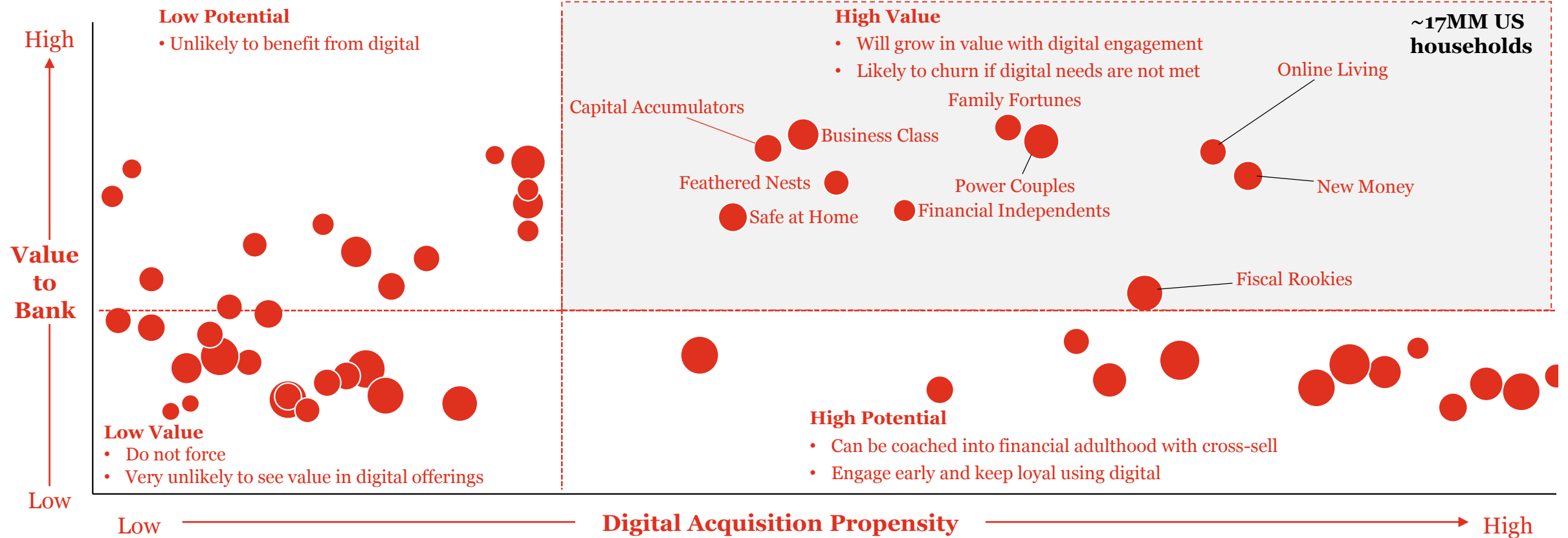
■ All Non-Direct Customers

# In light of these trends, distinct digital banking archetypes are emerging



Based on our proprietary behavioral segmentation, we have identified digitally native target segments to prioritize

### Segments Outside Bank Branch Footprint



Source: PwC Client Insights Platform, PwC Analysis

*Customer expectations  
are ever increasing and  
are being defined by  
experiences outside of  
banking*





*Today's consumer has to  
hope and pray they can meet  
their financial goals*





Every bank is now faced with strategic choices about which customers to focus on, what to offer them and how to differentiate.....

1. Which **customer segments** are we going to target to **drive our growth**?

4. What **capabilities** do we need to deliver that value proposition?

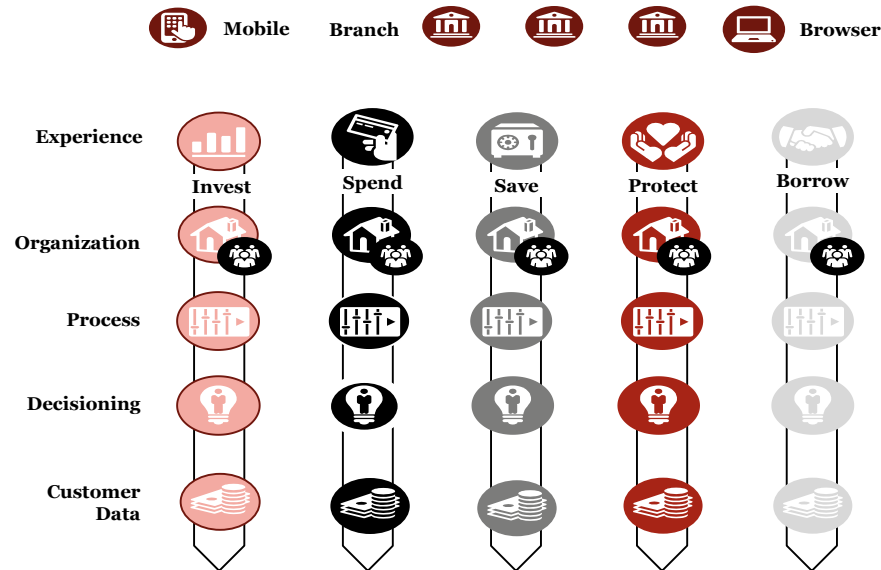


2. What is our **unique value proposition** for each customer / market segment?

3. What **products** and **services** are we selling to each customer/ market segment?

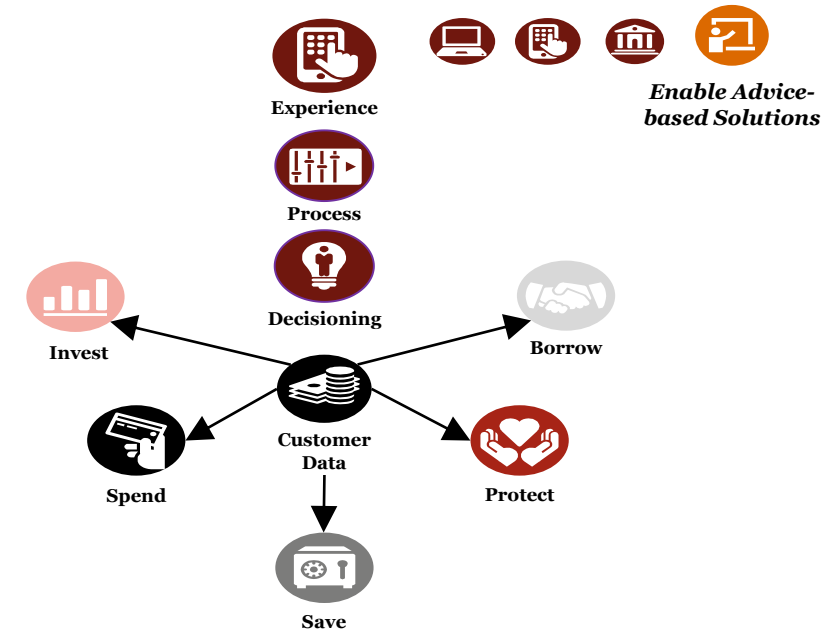
# The Future of Banking is a complete business transformation: customer centricity enabled by a streamlined operating model and next-gen technology

## *From a Traditional Bank...* *Product-centric mindset*



*Thinking about individual products is an antiquated, obsolete mentality...*

## *...To a Digital Bank* *Customer-centric, technology enabled philosophy*



*...Thinking about customer needs, in a segment of one, is a way to position and steal share from competitors*

**Retail Banks need to  
build new organizational  
capabilities...**

**...and Fintech firms  
should align  
appropriately**

**Get Serious  
About  
Evaluating  
Emerging  
Technology**

**Move from  
Mergers to  
Partnerships**

**Shift to  
Outside In:  
Design  
Thinking,  
Operational  
VOC**

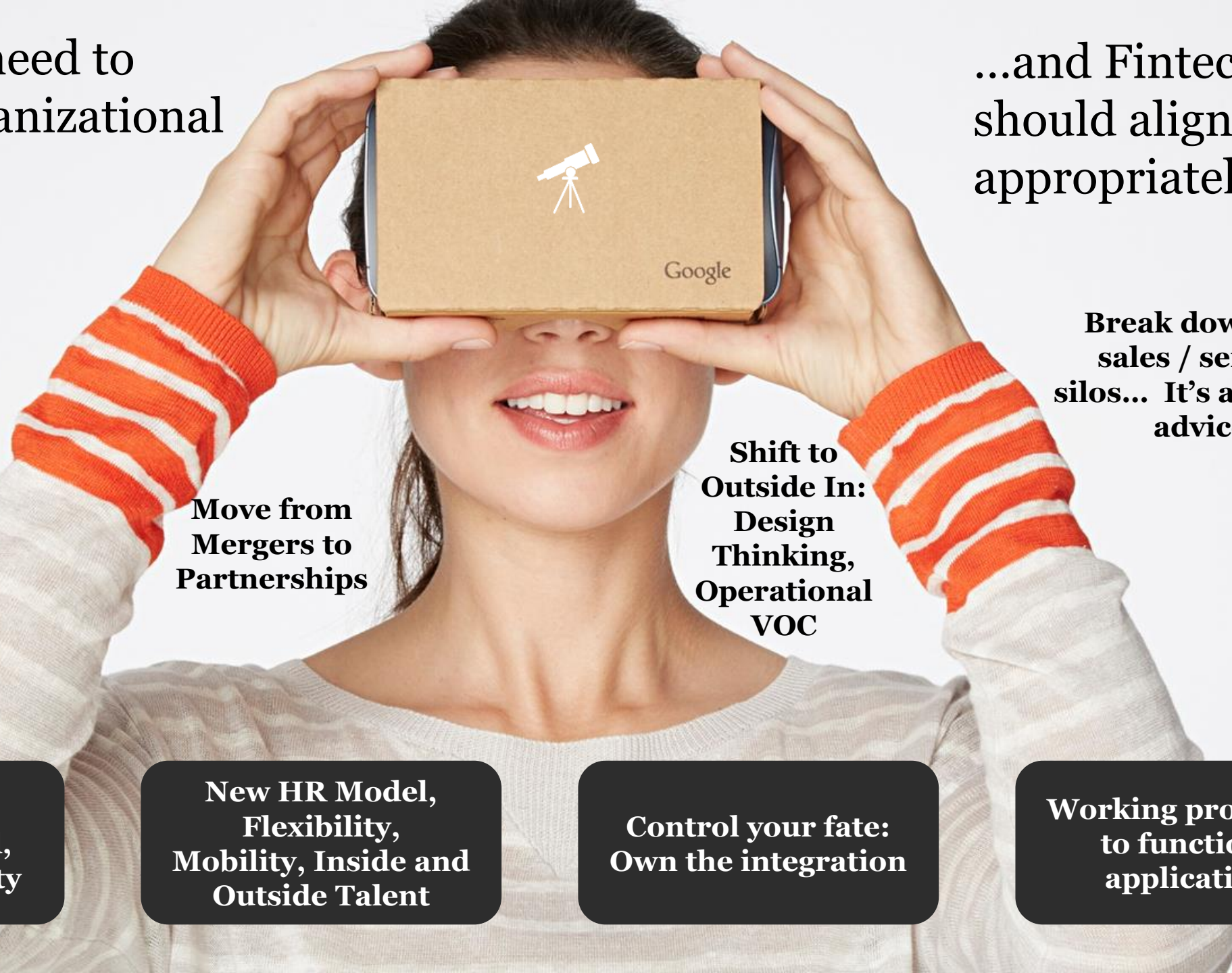
**Break down the  
sales / service  
silos... It's all about  
advice**

**Create an IT  
Culture of Speed,  
Agility and Quality**

**New HR Model,  
Flexibility,  
Mobility, Inside and  
Outside Talent**

**Control your fate:  
Own the integration**

**Working prototypes  
to functional  
applications**

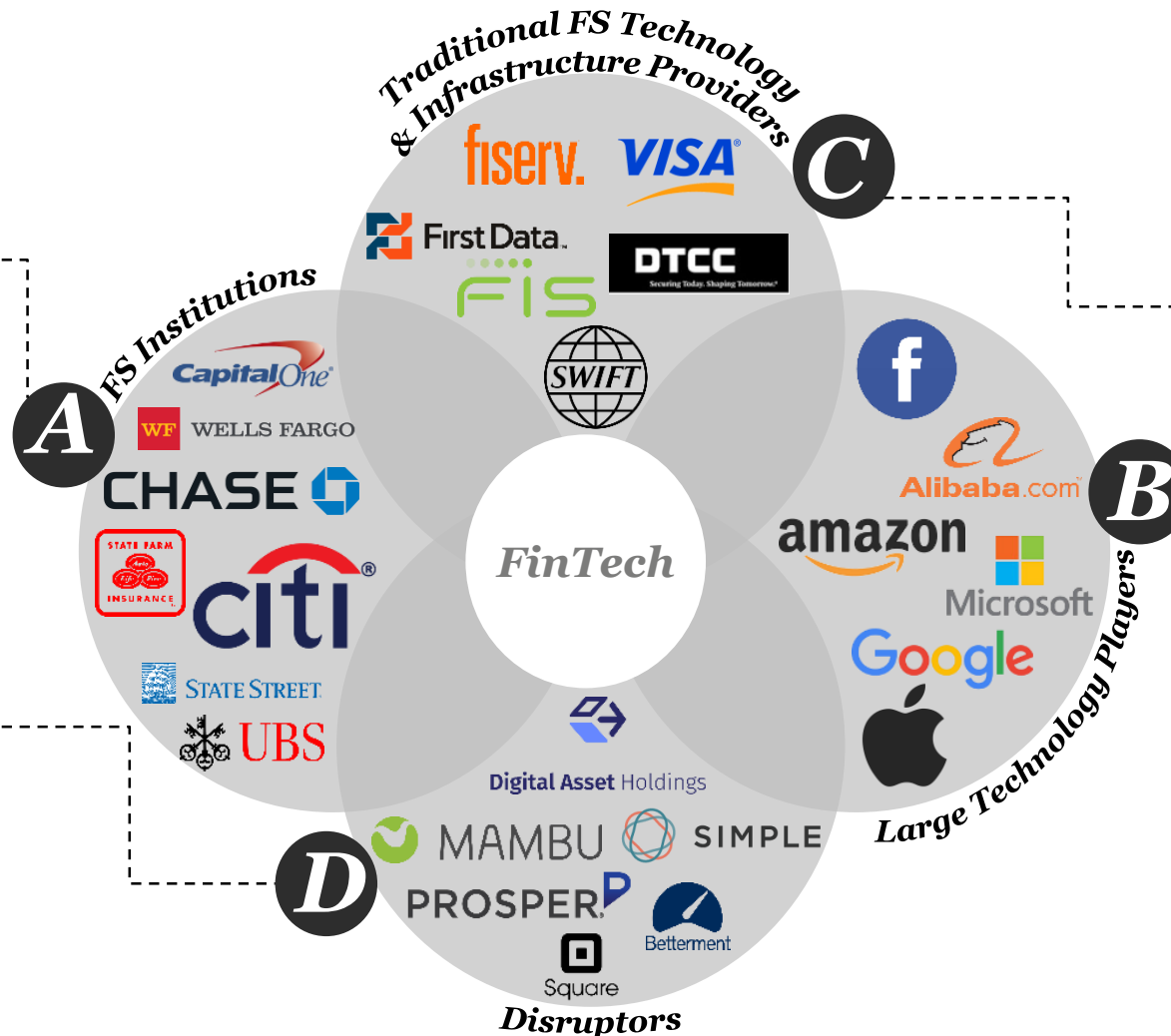




# FinTech is the convergence of several sectors/subsectors each battling for their ability to create value, but only one should have cause for concern

**Thesis:** Best positioned to leverage new FinTech innovations that are opening new opportunities to serve new customer segments and offer new products either by partnering and piloting new solutions with FinTech companies or monitoring and rapidly adopting appealing solutions by them

**Thesis:** Originally interested in B2C business models but now primarily focused on B2B models that supplement FIs by enhancing customer experience in non-traditional, niche parts of FIs' value chain



**Thesis:** Should be the most concerned, as new FinTech companies are now focused on facilitating FIs with new innovative solutions rather than cannibalizing current banking business

**Thesis:** Interested in lucrative, customer-facing parts of the FIs' value chain as complements to current offerings rather than becoming FIs themselves due primarily to FIs' regulatory burdens

# FinTech: Why now? Because technology has lowered the barriers to entry which set the groundwork....

## 1. Open Source Frameworks

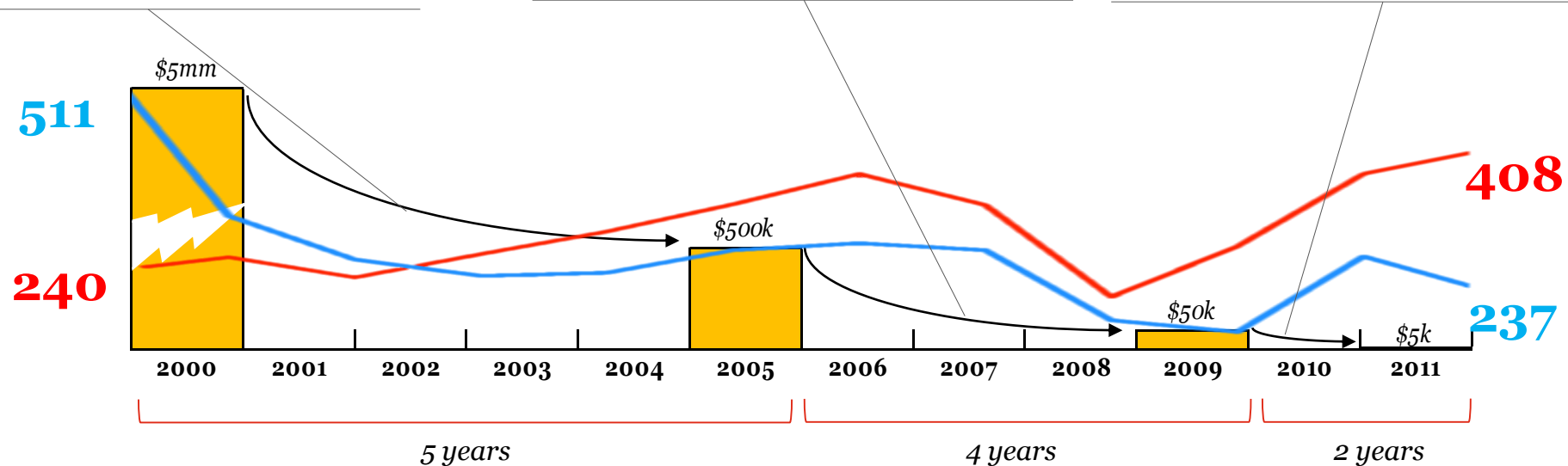
- All-time available resources
- Proliferation of knowledge
- Full-spectrum dev support

## 2. Scaled Cloud Computing

- Scalable strong security strategy
- Agile expansion of computing capability
- Dynamic marketplace for applications

## 3. Developers On-Demand

- Short idea-product conversion
- Quickly capture new customer needs
- Agile and Iterative Development Cycles

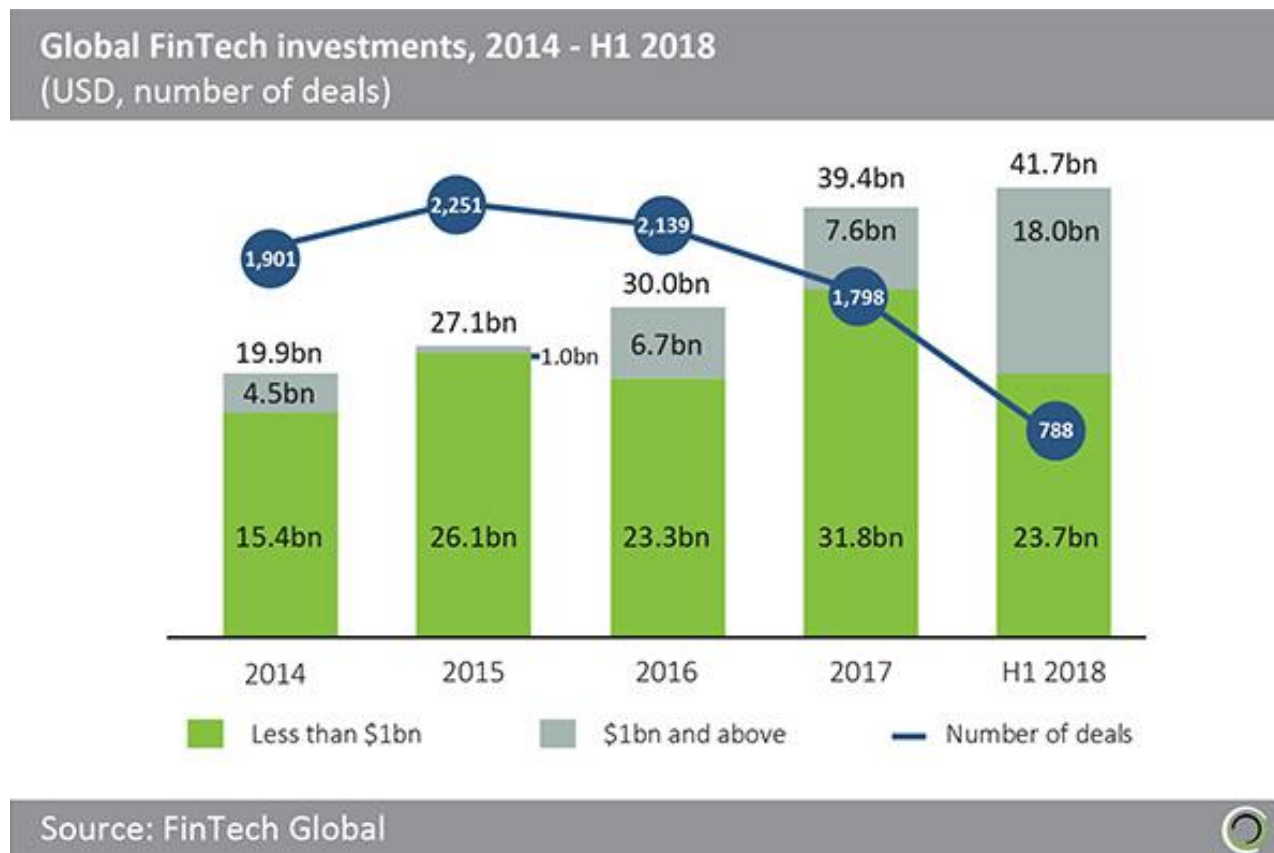


Source: <http://www.bothsidesofthetable.com/2012/05/23/its-morning-in-venture-capital/>  
<http://tomtunguz.com/declining-follow-on-success-rates/>

- Cost to establish a tech start-up <sup>1</sup>
- Series A Counts <sup>2</sup>
- Series B Counts <sup>2</sup>

... and now the Global Fintech industry is maturing quickly with record funds raised in first half of 2018 with less overall deals

- Global Fintech Investments increased steadily between 2014-2017 from \$19bn to \$39bn at an 18% CAGR
- There were two megadeals valued above \$1bn (Ant Financial, \$14bn)
- Deal activity peaked in 2015 at 2,251 deals
- Shift towards larger deals expected to continue



Source: <http://fintech.global/2018-is-already-a-record-year-for-global-fintech-investment/>



# Incumbents focus on value chain and functions while FinTech start-ups employ design thinking and rapid prototyping to meet customer needs

FinTech start-ups will look for issues where ***Customer Needs and Expectations*** are not met by traditional services, and quickly scale a technology-driven product solution to start their disruptive evolution.

## 1 FOCUS

Disruptors focus on a single product solution, which is the point of disruption first and foremost



## 2 ADJACENCIES

Then, they take “bites” out of the most valuable adjacencies to the disruption point



## 3 PIVOT

They will move into another business through product and service expansion if there is additional value to take

# Friend today, competitor tomorrow

## Payments Industry



### 1 FOCUS

**Square Reader** for card acceptance at small merchants

- 2009 (Series A)
- Total Funding: \$10M
- Valuation: \$45M

Key Competitors



After successfully establishing itself in the Payments POS industry, Square started to offer cash advances to its customers, pivoting to the Lending industry.

### 2 ADJACENCIES

**Square Stand** for a more complete Point of Sale process

- 2013 (Series D)
- Total Funding: \$341.8M
- Valuation: \$3.25B

### Success Factors



#### Data Driven Insights

Predict future cash flow with integrated underwriting.



#### Integrated Processes

Withhold cash at source to ensure timely repayment.

## Lending Industry



### 3 PIVOT

**Square Capital**, business loans for merchants using Square's POS Solutions.

- 2014 (Series E)
- Total Funding: \$766.8M
- Valuation: \$6B

Key Competitors



# Innovation and disruption opportunities will occur at three main levels

## VALUE CHAIN ENHANCEMENT

*Intelligence & Automation, and Digitization as enablers*

“Leverage new digital solutions to improve – in terms of efficiency and profitability - the way things are done”

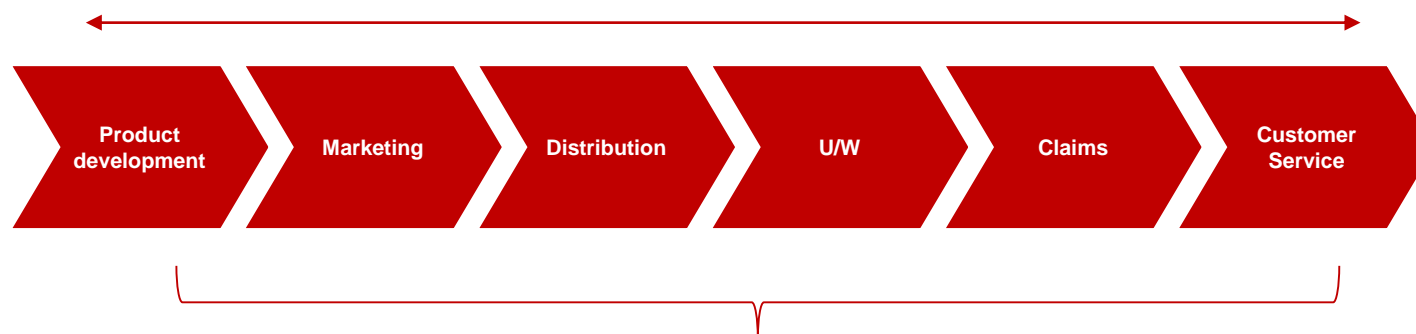
i.e. Digital Banks, robo-advisors...

## CUSTOMER DISRUPTION

*Customer Revolution*

“Demand of new products and services as a result of the changes in customers needs as expectations”

i.e. Alternative repayment structures, shared economies ...

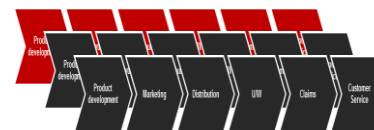


## INDUSTRY DISRUPTION

*Evolving Business Models*

“New business models, impacting and challenging the existing Banking Business Model”

i.e. Peer to peer lending, omnichannel integration...





The Retail Bank of the future will be focused on advising clients on their Financial Health

*Engage the client off bank and at that bank*

*Embed education, advice, goal setting, goal attainment into every interaction*



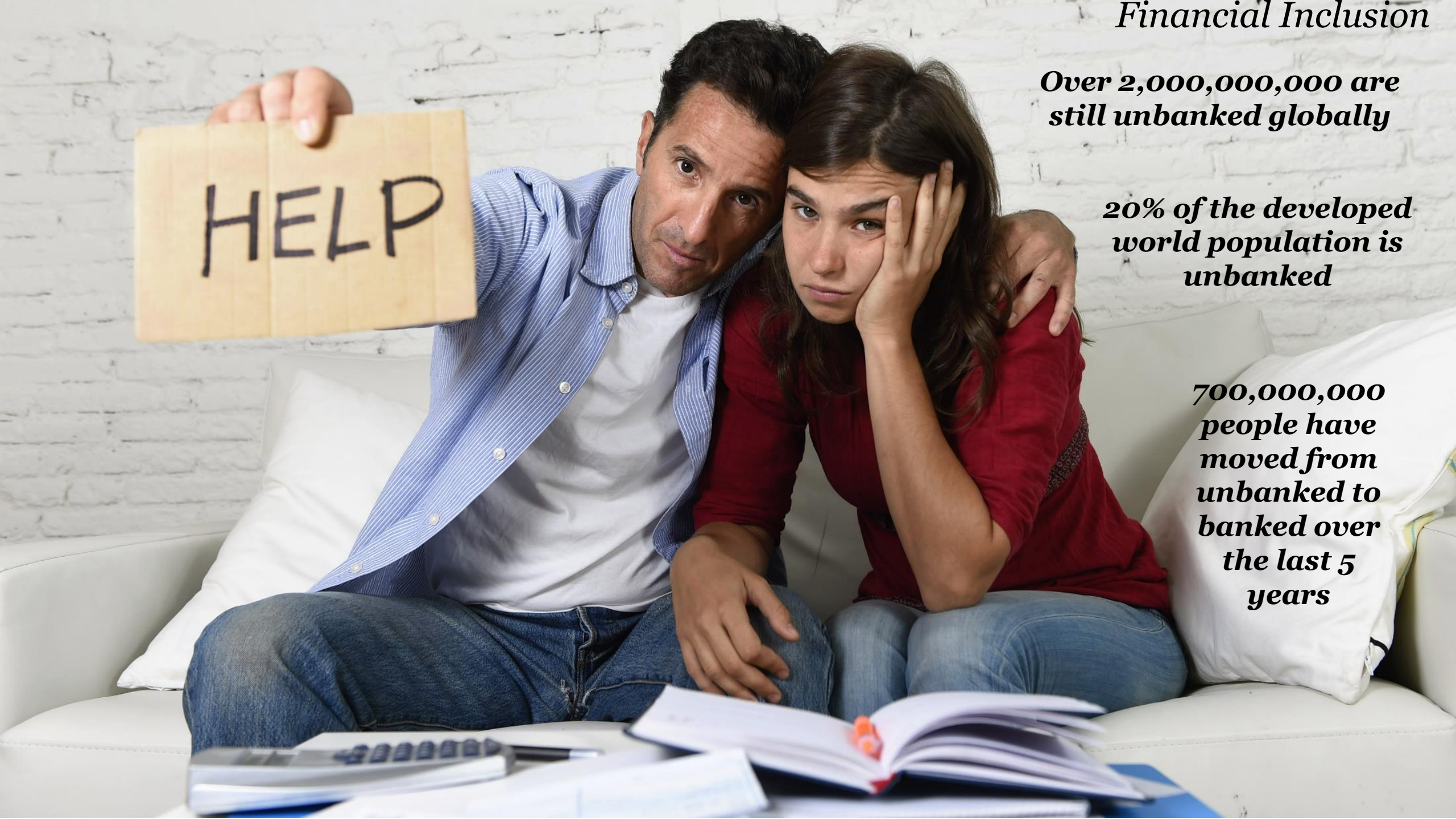


## *Financial Inclusion*

***Over 2,000,000,000 are  
still unbanked globally***

***20% of the developed  
world population is  
unbanked***

***700,000,000  
people have  
moved from  
unbanked to  
banked over  
the last 5  
years***



# Thank You

Justin O'Connor

[justin.oconnor@pwc.com](mailto:justin.oconnor@pwc.com)





## Play Ben Video



Rent is due  
\$1,650