

# BANKING & INNOVATION

## How Financial Services Can Embrace The Customer Revolution

August 2014

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### OVERVIEW

Financial services companies are increasingly seeing opportunities to be at the forefront of innovation. Historically, banks have been slow to translate consumer demands into technologies like paperless statements and mobile check imaging. However, they were quick to implement online banking and, today, customers who bank online are typically more satisfied as well as more cost-effective to maintain. Banks have also responded to the shift in consumer demand for mobile banking on tablets and smartphones.

The next challenge facing financial services is how to address the rise of consumer trends evolving mainly outside of the industry. This paper focuses on three phenomena that will ultimately impact every bank:

- CROWDSOURCING
- WEARABLE TECHNOLOGY
- THE SHARING ECONOMY

We will explore the state of each these trends, and how they relate to financial services.

## CROWDSOURCING

Recent advances in mobile technology continue to redefine the relationship between customer and service provider. Savvy customers and the sophisticated insights gained from customer behavior are actively shaping products and services. These changes are altering, and often reducing, the need for businesses to pay for costly services including market research and customer service. The growth of crowdsourcing and consumer activity also creates risks for businesses. Every business decision is subject to greater scrutiny, publicity and intensity of reaction. The effects of messaging are far less predictable.

Within the broader financial services sector, including not only banks but also brokerage and investment firms, new ways of leveraging the wisdom (and sometimes the irrationality) of crowds have emerged. Among recent examples is Tradepop, a service that aggregates social media commentary on thousands of individual stocks and companies to collate market sentiment in a way that is claimed to be a leading indicator. Another

### Tradepop Most Talked About

	Name	Last Price	Sentiment
1	<b>AAPL.O</b> Apple Inc.	101.54 USD	+53 -47
2	<b>C</b> Citigroup Inc	51.63 USD	+33 -67
3	<b>GOOGL.O</b> Google Inc	590.57 USD	+58 -42
4	<b>BP.L</b> BP plc	485.1 GBp	+40 -60
5	<b>0005.HK</b> HSBC Holdings plc (Hong Kong)	83.4 HKD	+47 -53
6	<b>YHOO.O</b> Yahoo! Inc.	37.71 USD	+48 -52
7	<b>MSFT.O</b> Microsoft Corporation	45.17 USD	+50 -50
8	<b>BAC</b> Bank of America Corp	16.29 USD	+65 -35

Source: Tradepop 2014

“By inviting customers to participate in communication and strategy, companies not only gain innovative ideas and intellectual capital, but also build a sense of community, loyalty and shared responsibility.”

is the creation of community specific platforms of investors (as seen in innovations from Israel and other markets) who, within a closed user group, can share their views on particular investments, and even build up followers within an investment community that seeks to mirror their choices.

#### HOW IT RELATES

Customers want to be involved in shaping their financial products and services. By inviting customers to participate in communication and strategy, companies not only gain innovative ideas, but also build a sense of community, loyalty and shared responsibility. Regardless of the means by which “knowing your customer” occurs, it is up to you and your company to choose how to leverage that knowledge.

Banks need to consider crowdsourcing as a way to create more meaningful conversations and deeper relationships with customers. This could be useful in specialized areas such as borrowing and brokerage services.

#### WEARABLE TECHNOLOGY

Endeavour Partners, a consulting firm focusing on mobile and digital businesses and technologies, reports that 1 in 10 people in the U.S. owns some form of wearable activity tracker.<sup>1</sup> A third of those surveyed stopped using the device within six months of the initial purchase. These findings, along with the lukewarm response to recent launches of digitally-enhanced eyewear and watches, indicate a trend with highly uncertain outcomes.

However, it is clear that wearable technology is something to be watched by all banks, with a potential to provide new payment mechanisms that may supplement traditional cards. According to Javelin Strategy & Research, wearables hold great promise as payment devices, and will be judged based on the same metrics that are currently applied to mobile proximity payments.<sup>2</sup> Two leading banks, Barclays in the UK and Santander in Spain, launched large-scale pilot projects for wristbands that allow

<sup>1</sup> “Inside Wearables: How the Science of Human Behavior Change Offers the Secret to Long-Term Engagement”, Endeavour Partners, January 2014

<sup>2</sup> “Investing in Wearables for Financial Services – Why Now?”, Javelin Strategy & Research, July 2014

wearers to make small payments with the flick of the wrist. The Barclays “bPay” wearable band has recently become more widely distributed, now available at hundreds of thousands of merchants across the UK.<sup>3</sup>

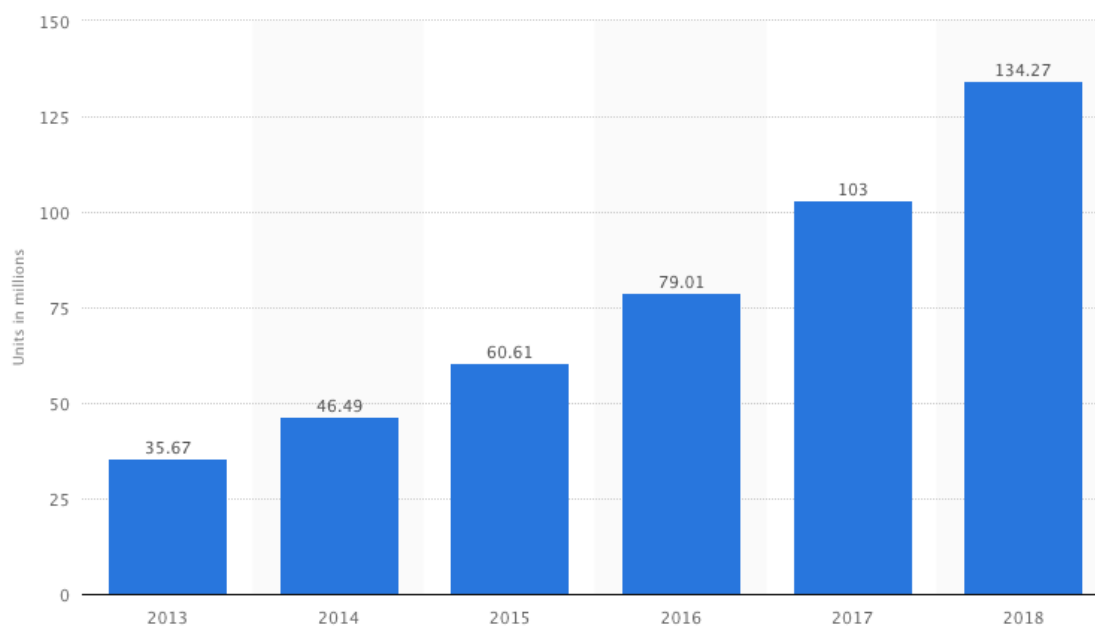
To date, wearable technology has incorporated significant developments driven by customer behavior:

**HABIT TRACKING:** Health-related wearable technology has focused on reminders and rewards to help users achieve a specific goal. These include push notifications based on sound and vibration, as well as text.

**SOCIAL REINFORCEMENT:** Many wearable devices have embedded social elements into their functionality on an unprecedented level. For motivation, experience sharing, or bragging rights, products are relying on a social networking component for success.

“Wearable technology is something to be watched by all banks, with a potential to provide new payment mechanisms that may supplement traditional cards.”

**Wearable technology worldwide projected total unit shipments from 2013 to 2018 (in millions)\***



© Source: Statista 2014

<sup>3</sup> “Barclay card takes bPay wristbands beyond payments”, Finextra, August 14, 2014

## HOW IT RELATES

While the definition of a customer's financial experience is already blurry, prepare for further blur. Banking already extends beyond touch points such as ATMs, phones, branches and others. How and where the customer experience will extend is unknown. Financial services companies can, however, control the consistency of the experience they offer across platforms, as well as foster a culture that is open to the unexpected.

## THE SHARING ECONOMY

Increasing advances in communications, payment and tracking technology are facilitating the sharing economy, in which individuals are able to conduct transactions with each other in competition with traditional businesses. Examples include decentralized ride services like Uber competing with taxi companies, and lodging rental businesses like Airbnb going up against hotels. The range of services offered, as well as the

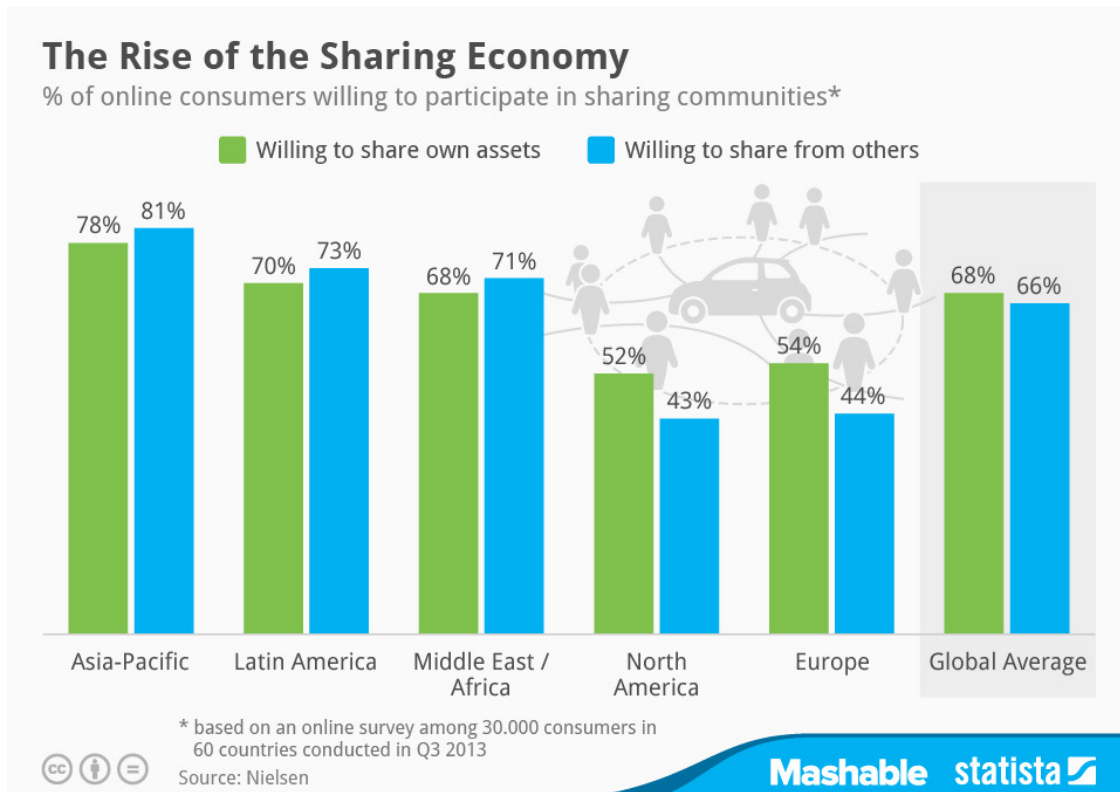


Chart by Mashable & Statista from 2013 data from Nielsen, June 3, 2014

structure of these transactions, is dizzying. Yet the benefit to customers can be significant. According to Mark Walker of Zipcar, 50% of people living in the UK are already participating in the sharing economy, with families saving an average of £530 a year.<sup>4</sup>

Within the financial services industry, the growth in peer-to-peer lending managed by firms like Zopa and LendingTree is indicative of the wider sharing economy trend – in this case, direct sharing of capital assets between individuals. The rise of these services poses an interesting challenge to traditional banking. On the one hand, such services seem to threaten traditional bank lending; but on the other, new revenue streams may surface. These include not only the obvious, such as collecting transaction fees for facilitating P2P loans, but also the less obvious, such as selling services and tools that manage these kinds of transactions to individuals and businesses.

## HOW IT RELATES

Even as the nature of services and transaction structures change, some essentials will always be required: payment for services, and book-keeping/reconciliation. While many of these emerging businesses are nontraditional, financial services have an opportunity to help shape what may be one of the largest economic shifts in recent history.

The emerging needs of an independent small business require unprecedented flexibility as well as the security that traditional financial services can provide. Products with the ability to organize transactions based on earnings and expenses from a micro-business, as opposed to personal spending, are already highly desirable, and the demand for such flexibility is certain to grow quickly. Financial services companies can provide value by designing tools and experiences to support buyers, sellers and intermediaries.

Firms to watch in the P2P space include LendingRobot, which provides services similar to core credit management. Banks would be wise to think about how they might add such capabilities to their service portfolios.

<sup>4</sup> "The Growth of the Sharing Economy", Bloomberg TV, June 17, 2014

“Financial services companies can provide value by designing tools and experiences to support buyers, sellers and intermediaries.”

## CONCLUSION

Innovations are always simultaneously exciting and risky, especially when they emerge with incredible speed. Banks and other financial services companies are actually well positioned to meet these challenges if they capitalize on these advantages:

**LEVERAGE AND GROW CUSTOMER TRUST.** When treated correctly, customers can provide solutions for new challenges.

**EVOLVE EXISTING TRANSACTION SYSTEMS** by adding new capabilities sourced from smaller, innovative firms. Banking infrastructure is an advantage that creates opportunities for financial services to serve emerging customer experience needs in new ways.

**UTILIZE EXISTING ABUNDANCE OF DATA.** Take skillful analysis of the rich information already in the hands of financial services, and leverage it with the capabilities of new fintech market firms that can combine data in new ways to anticipate customer needs.

In every case, banks need to improve their customer experiences by partnering with newer players to leverage these trends.



## comrade

Focused on improving the customer experience through design, Comrade has delivered over 300 projects to clients in financial services, including two of the top three US retail banks, the world's largest asset manager and three of the top 5 fintech organizations. Comrade works smart and fast to design and launch innovations like mobile and web apps that better engage customers and increase revenue. For more information on collaborating with us, please contact us at [business@comradeagency.com](mailto:business@comradeagency.com).

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## MATCHI · BIZ

Matchi is a global innovation matchmaking platform that connects banks to leading fintech innovator firms from around the world. The innovation ecosystem that Matchi promotes gives banks access to powerful, positive and proven innovations, and fintech innovators access to the world's leading banks. The Matchi innovation community includes banks like Caixabank, UBS, Citi, Lloyds and RBS. For more information on how you can join the community, please contact us at [info@matchi.biz](mailto:info@matchi.biz).

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