making the switch. rewiring banking.

Insight paper

Five steps to managing the digital banking transition.

MagnaCarta

five°degrees
the fintech engineers

Executive summary

Every journey starts with a single step. Incredibly, given where the industry has come from in the last decade, across Europe that first step has largely been taken as banks throughout the region have crossed the digital threshold, and come to terms with the notion that change is unavoidable. More interestingly, though no-one denies the scale of the challenge, change is today more often perceived an exciting opportunity, than an existential threat.

"Making the Switch" includes insights from interviews with heads of digital banking and innovation at traditional and challenger banks across Europe, fintech engineers at five°degrees, and draws on data from the Fintech Disruptors 2018 research to explore the drivers, requirements, challenges and opportunities offered from making the transition to a fully digital banking enterprise.

Acknowledging that digitisation is very much a work in progress, not just for individual banks, but for the industry as a whole, it nonetheless identifies common themes across the sector and a new sense of realism replacing some of the more unsubstantiated promises of previous years. It discovers that:

- Partnership between banks and fintechs is a necessary condition of success, but the nature of that partnership can be decided on a case-by-case basis.
- Customers want better services from banks, but even younger generations are reluctant to abandon branches and commit their finances to unknown newcomers just yet.
- Legacy systems continue to be the drains on budget and innovation, as they have been for some time, but creating a digital core need not involve ripping all of the legacy out.
- Digitisation has all the challenges of a 'traditional' major change programme – but with one notable exception: the end goal is likely to continually change.
- As two diverse working cultures, technology mantras, and attitudes collide, one of the biggest challenges will be managing expectations of the natural innovators as well as the inherently cautious (among both staff and customers).

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Services over screens

Last week we had web, yesterday it was mobile, today it is APIs, what will it be tomorrow? Channels should not create more complexity, they should just be a presentation layer without any business logic. By holding business logic outside channels means you become not just omni-channel, but omni-access.

Introduction

Traditional banks have faced down the apocalypse over the past three years, as young start-ups and more established fintech companies threatened their position in the financial services value chain. Yet banks still stand and the wild promises of a digital revolution have not yet materialised.

Most banks, fintechs, partners and resellers recognise the scale of the transformation they are now part of – from the infrastructure of banking and payments, to methods of delivery, the structure of the sector and the concept of money itself. But in place of the hype and the froth is a very welcome sense of realism about the future of digital banking and how to achieve it.

However, even though the threat to banks failed to materialise in quite the way that was predicted by some of the more doom-mongering corners of the industry, banking still has a problem. Banks aren't the trusted pillars of the community that once they were. Customers are used to streamlined and differentiated services in other areas of their lives. And basic banking tasks can still seem opaque and unnecessarily complex to many.

Right now, consumers and businesses still depend on traditional banking services, and have proved reluctant to trust their financial affairs completely to newcomers and unfamiliar names. However, 70% would rather visit the dentist than visit their bank branch. That represents a fairly serious breach in the relationship between banks and their customers. That said, 50% of fintechs believe that partnering with banks will earn them customer trust – suggesting there is plenty of material for banks to work with.

This is where disruptive technology comes in. Not just for challenger banks – it can also help more established institutions reignite their relationship with its customer base.

Our thanks to the interviewees who made this insight paper possible.
Interviews were carried out in February 2018.

- **Gunnar Bergen,** Head of Open Banking, Nordea Bank
- **Sheri Brandon,** Chief Commercial Officer, five°degrees
- **Valentina Kristensen,** Head of PR and Marketing, OakNorth Bank
- **Chris Micallef,** Head of IT, Banif Bank
- **Zane Miltina,** Head of Strategic Initiatives, Digital, Luminor Bank

1. Why switch?

It's about more than energy efficiency

1. Costs

In the decade since the financial crisis, most banks have made the savings that were available to them: shrinking branch networks, eliminating risky or unprofitable products or business lines, finding efficiencies in shared back-office services, and streamlining non-customer facing areas such as procurement.

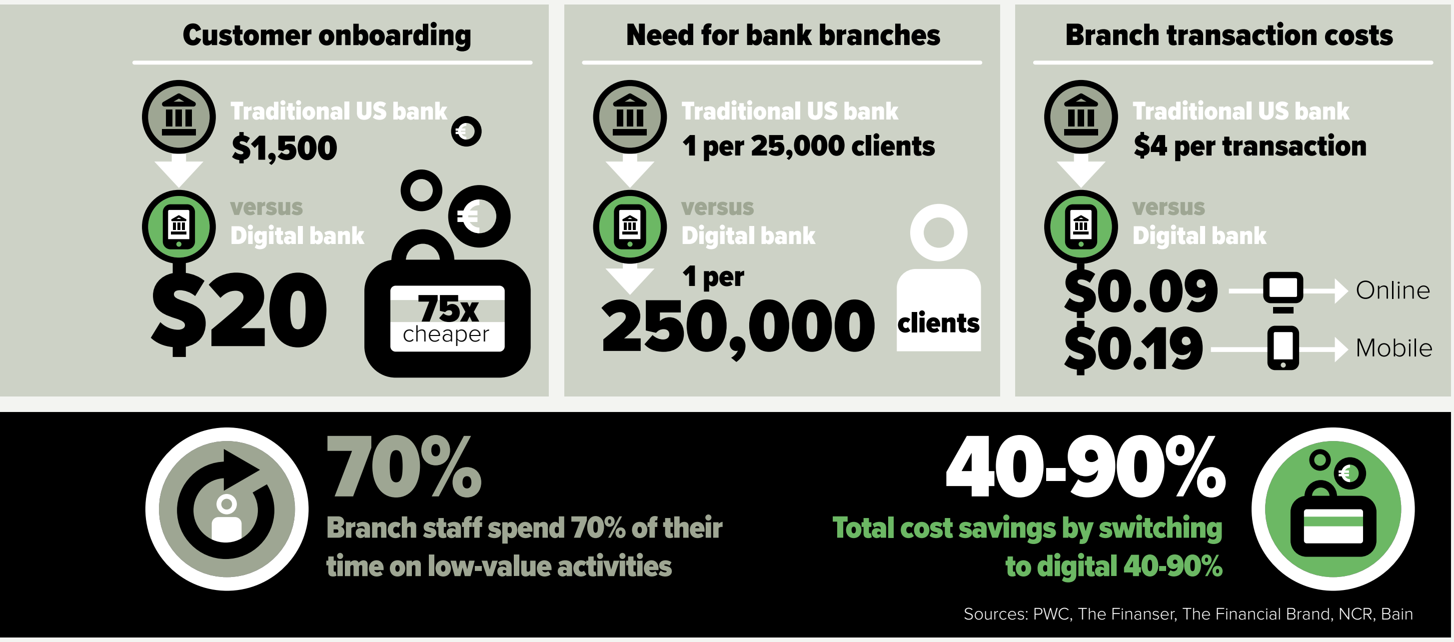
But those efficiency drives have not always delivered on expected savings. By adding new layers of complexity and extra protocols to processes, they may even have increased costs in places. Further-more, the regulatory environment has become stricter, adding to the compliance burden. Compliance aside, challenger banks are largely untroubled by these issues, and it shows in the cost base.

For example:

- It costs an average traditional bank around $1,500 to find, KYC and fully onboard a client. It can cost a digital bank as little as $20[1].
- On average, the cost per transaction of online banking is $0.09, and $0.19 for mobile banking. A branch transaction costs the bank, on average, $4.00.
- A typical bank spends 80% of its IT budget simply maintaining legacy systems and with them, the status quo[2].

In other words, banking-as-usual is sucking up budget just to stay still. In contrast, harnessing digital services could eliminate up to 25% of costs, according to McKinsey. Since most retail banks have digitised around 20-40% of their processes, they have only realised savings of 5 to 10%.

The convincing business case



1 Source: Chris Skinner, The Finanser, https://thefinanser.com/2014/04/theres-a-big-difference-between-kyc-and-knowing-your-customer.html/

2 Source: Financial News, October 2017, https://www.fnlondon.com/articles/banks-face-spiraling-costs-from-archaic-it-20170912

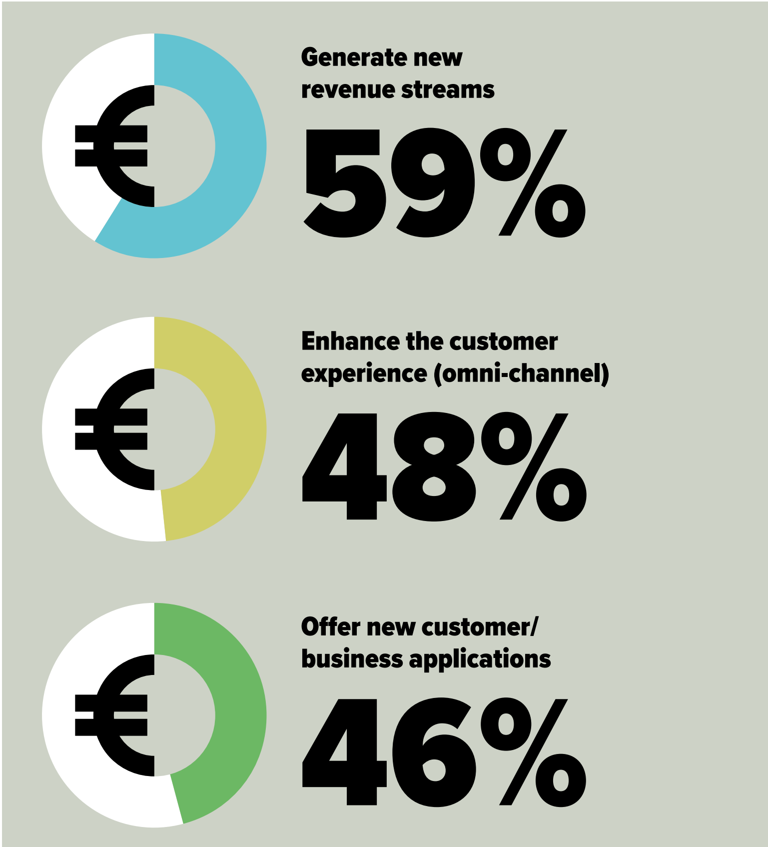
2. Revenues

Consider again the process of onboarding customers. Many traditional banks still require new customers to visit the branch and to present their ID, followed by an onboarding process that can take days. Not only does the total process cost traditional banks 75 times more than it costs digitised banks, it creates a window for potential customers to choose an easier and quicker option – and take their potential revenue with them.

It's just one example of the way that revenues are put at risk by old-fashioned processing. Eventually, customers will turn to more convenient alternatives. That revenues are potentially being lost is already recognised. The consensus among participants in the Fintech Disruptors 2018 survey was that 31% of current revenues could be at risk from new entrants over the next five years.

Of the banks that took part, 59% take a favourable view of partnerships with innovative fintechs because they see it as a means to generate new revenue. And as Gunnar Berger at Nordea points out, "By creating better value you can generate new revenue streams for the bank."

Top 3 reasons for partnering with fintechs:



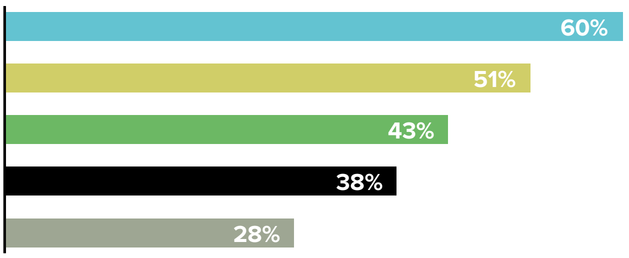
Source: Fintech Disruptors 2018, MagnaCarta

3. Compliance

No one claims that compliance is easy. But without digitisation, it is becoming all but impossible. New regulations like the EU's Second Payments Directive (PSD2) are effectively turning banks inside out. GDPR is re-shaping the way we think about customer data. Banks need systems and applications that provide access to customer data to any number of authorised third parties while provide assurance to regulators.

Traditional ways of thinking about banking – a closed shop protected by very high walls – are being retired. Banks need to open up their systems to digital-first fintechs, while protecting their own customer relationships. Going digital is the way to avoid a major compliance breach, with the costs and loss of reputation that ensues.

Compliance and reg-tech: where are the digital opportunites?



- Anti-money laundering/KYC requirements
- Privacy and data protection compliance
- Data, records and analytics reporting
- Compliance risk assessment
- Third party compliance risk management

Source: Fintech Disruptors 2018, MagnaCarta

4. New technologies

Fintech is an exceptionally fast-moving and innovative space. And fintechs want to partner with banks. 69% believe that working with a known brand gives them the credibility; 64% feel it gives them a chance to grow both in terms of scale and reach[1]. But one of the strongest business cases for digitisation, with or without a partner, is this: if you don't do it, someone else will.

For example, as Sheri Brandon of five°degrees points out, Munnypot has created a greenfield robot advisory service for wealth management in the UK. It makes the management of financial investment portfolios affordable and accessible to people who are usually disqualified by incumbent banks. When ABN AMRO decided to launch a new FX trading and payments proposition for SMEs, it went digital from the start and launched in only eight months. Brand New Day, the Dutch challenger insurer, added a savings operation to its pension business and created a new bank in less than five months.

5. Competition

From new technologies we get new competitors. These competitors often don't look much like traditional banks. They are digital first, and are consequently more intuitive and better able to anticipate what the customer wants. That means they can:

- Sell to customers at the time, place and channel they prefer.
- Use digital strategies to make products easier to use.
- Offer personalised products and services when customers want them.
- Deliver real-time information to help consumers manage their finances.

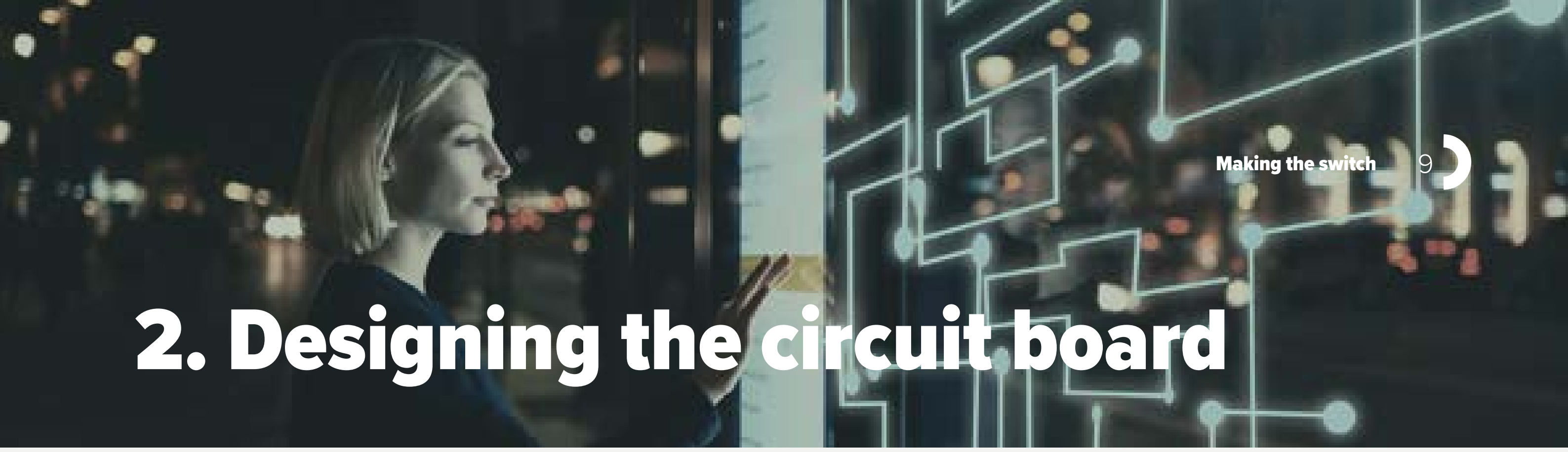
Many specialise in one particular area such as FX trading, payments or investments, but they are nonetheless attacking the universal bank model. It is much harder to compete against twenty nimble and highly focused specialists.

Finally, although banks recognise that they may compete with Apple in the mobile payment space, they are more reluctant to admit they compete with Amazon in the customer expectation space – and that the bar is exceptionally high. Customers like the autonomy and choice that Amazon and others give them. They like the peer-to-peer experience. The asymmetry of the paternal banking model, in which banks dole out services to customers like sweets to a child, feels increasingly out of date.

"We're not competing with banks any more, but with fintechs, technology companies and new ecosystem partners."

Zane Miltina, Luminor Bank

[1] Source: Fintech Disruptors 2018, MagnaCarta



2. Designing the circuit board

The requirements for switching

1. Do you understand digitisation?

The most basic question of all, and yet one that provokes a very complicated answer, can mean many things to many people. For some it is simply automating manual processes. Alternatively, it is often viewed as the latest step in a journey that started with ATMs, moved on to call-centres, added online banking and has now reached mobile services. The pattern in each of these cases has been to bolt on new channels of delivery to existing offerings. Each is a discrete service complete with discrete databases, isolated infrastructure, and operational fiefdoms.

Digitisation breaks that model apart. It relies on a single, digital core that acts as a foundation for all delivery channels and simply offers different access points for customers and employees.

As Zane Miltina at Luminor Bank puts it, “digitisation means that financial institutions are increasingly becoming technology companies with a banking license.” Others have suggested that this is in fact the end of an era, as the lines between what is fintech and what are financial services are erased. At Bain and Company, analysts describe the (digital) bank of the future as ‘the safe keeper of data’ rather than the ‘safe keeper of money’.

However you choose to think about digitisation in your organisation, the key thing to understand is that this really isn’t just a twist on business as usual.

2. Who are you and what are you capable of?

With an industry going through such seismic change – even if the reported change outpaces reality – some fairly deep introspection is required. Fintechs like Zopa, Simple, Moven, Funding Circle, eToro, five°degrees, Friendsurance, or Square are pretty sure who they are because they operate in a very narrow field. Banks currently operate in all of them: but may have to decide whether this remains the right strategy.

Making the switch to digital requires banks to ask some deep questions of themselves: how do you define your role in this new landscape? Do you wish to remain the provider of all things to all people?

Do you need to simplify and streamline your product offering? Is a degree of specialisation more realistic? Do you wish to be a platform or an aggregator? Nordea Bank for example, has an open banking initiative that drives co-innovation and now hosts solutions from more than 600 third parties.

Earlier concerns about disintermediation seem overplayed: in the field of mobile banking, supposed to be the great disaggregator, payments are still largely sent, routed or originated using mainstream, bank-owned infrastructure. Nonetheless, the idea of being all things to all people may no longer be viable.

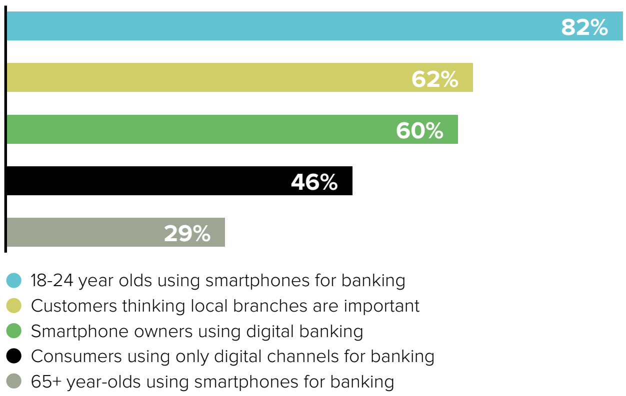
3. Can you put your customers first?

You need to know who they actually are. The Digital Banking Consumer Survey of 2017 from PwC gives us some useful insights. It tells us that 46% of consumers now only use digital channels for banking. It tells us that mobile banking has gone mainstream: 60% of smartphone owners use mobile banking in some way – rising to 82% of 18 to 24-year-olds. Not surprisingly, mobile banking use decreases with age: only 29% of the 65+ set are mobile bankers.

So far, so predictable. But consider this: more than 70% of consumers still bank with one of the four high street stalwarts in the UK – a market where consumer and regulatory pressure has created the conditions for the launch of a series of new challenger banks[1]. With a few exceptions, the use of cash is on the rise[2]. Even younger customers often prefer to visit a branch to open a new account, learn about budgeting, understand retirement options, and to understand and apply for a mortgage[3].

Although more than half of all consumers are now customers of at least one non-traditional company, there is a far more nuanced picture than the simple narrative of 'digitally-native Millennials abandoning traditional banks' would have us believe.

Who are your customers?



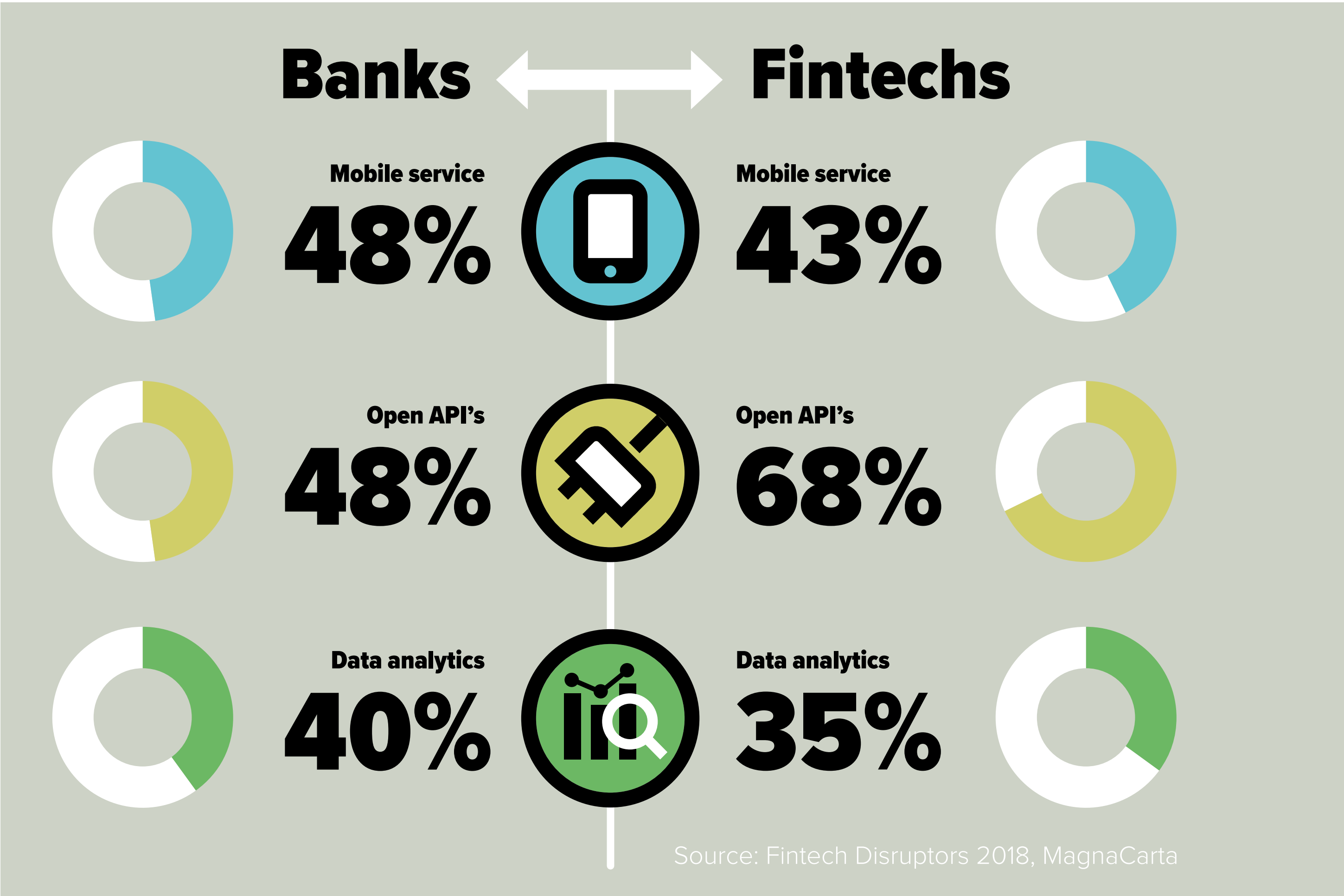
Source: PwC: 2017 Digital Banking Consumer Survey

4. What do you want to get out of digitisation?

One of the features of the new realism in financial services is a renewed focus on strategic technology solutions over hyped digital possibilities. The number of banks who see digital currencies and distributed ledgers (blockchain) as their biggest opportunity has fallen from 26% in 2017 to just 14% in 2018. The number who felt the biggest opportunity lay in exploring new business models also experienced a rather precipitous slum, falling from 39% to 14% over the past 12 months[4].

Instead, mobile services and Open APIs top the list, closely followed by data analytics. It is reasonable to interpret this as a continuation of existing progress towards integrating mobile into the business and preparing for PSD2. Equally, data analytics and AI are key areas that are essential for leaner, efficient and more responsive organisations. To make the switch successfully, banks must be clear about what they want to achieve.

Institutions versus innovators: Top 3 opportunities for banks



[1] Source: FT.com, November 2015, https://www.ft.com/content/1076be76-813b-11e5-8095-ed1a37d1e096 and Chris Skinner, The Finanser, November 2017, https://thefinanser.com/2017/05/23268.html/

[2] Source: World Payments Report 2017, Capgemini, LinkedIn and Efma, 2016

[3] Source: PwC: Digital Banking Consumer Survey 2017

[4] Source: Fintech Disruptors 2018, MagnaCarta

5. Can you commit to innovation?

It's a cliché for a reason: success takes focus and determination. In the newly non-frothy environment, it is clear that a number of the grand ambitions of the last three years have quietly dropped. The new realism is proving that effective leadership has been patchy: when operational heads have used regulation and risk aversion to slow progress or front-line managers have insisted that any cuts in budget will adversely affect growth or customer service, projects have become fatally delayed. When IT projects have failed to overcome complexity and or deliver on promised efficiency savings, it has acted as a break to further progress.

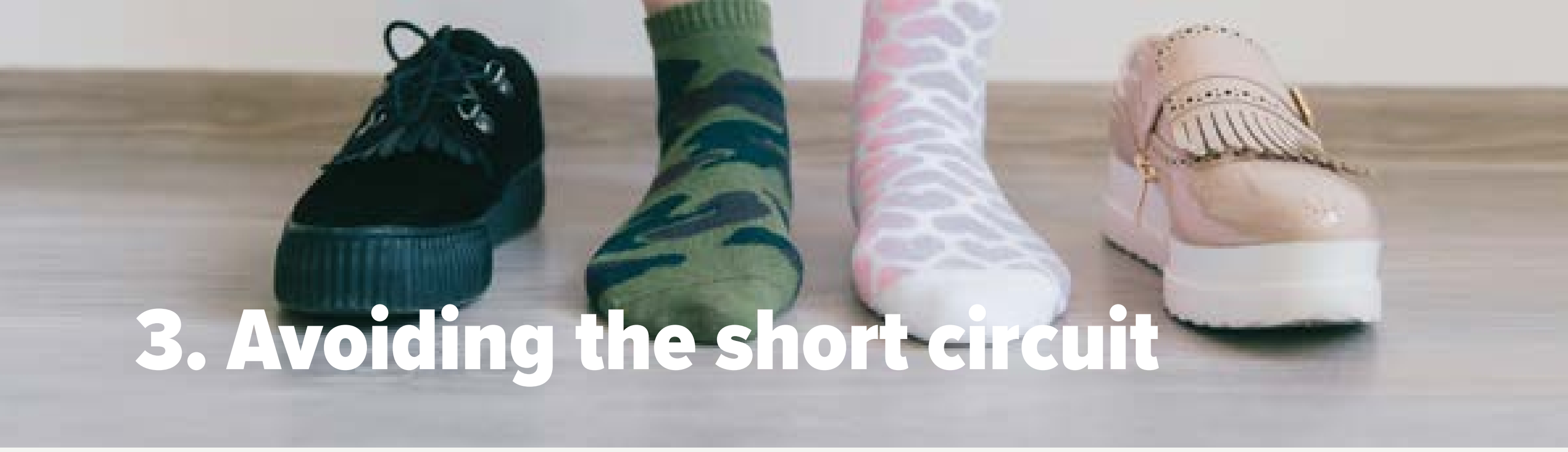
This is where leadership and the long-term vision that can build a new type of culture come in. Complexity is inherent to modern banking and though it is tempting to keep it that way, the banks that are succeeding do not using complexity as a means to short-circuit their transformation into slimmer, digital-first organisations.

"We are embarking on a long-term IT transformation."

Chris Micallef, BNF Bank, Malta

No client data in product systems

The days of complex, monolithic core banking systems are over and with it, the concept of holding customer data in core banking systems. We say core systems should be used for what they're known for in the first place - to create products and manage transactions. By keeping customer data and business logic in the middle layer, we help financial institutions reduce their architectural complexity while achieving a 360 degree view of their customers.



3. Avoiding the short circuit

The 5 key challenges for banks

1. Legacy platforms

For most banks, legacy infrastructure is the biggest challenge and highest hurdle to digitisation. Having been built up piecemeal over time, they allow banks to replicate certain parts of a given process online – but that is the limit to what they can achieve. They are the source of siloed information and siloed operations: the direct opposite of the agile, nimble digital processes banks now require. Their innate complexity and old-fashioned architecture is the reason for such immense maintenance spends.

The approach of PSD2 has highlighted the limitations of legacy systems: most are not compatible with the Open APIs that enable banks and their customers to plug into innovative services from third parties. However, legacy platforms reach into almost every aspect of the businesses, and replacing them is not always the right thing to do. Re-engineering core systems and processes to be built upon a digital core foundation can be a massive change for some, an incremental change for others. It may be that implementing a flexible digital banking platform on top of a traditional core system can bring rapid returns.

"Large incumbent banks that have been around for centuries have plenty of data to make robust credit decisions. The challenge they have is in accessing that data and doing the credit analysis at speed. It comes down to their legacy IT infrastructures – systems that have been patched together over decades through mergers and acquisitions. It's very hard for one portion of this spaghetti infrastructure to talk to another part of it."

Valentina Kristensen, OakNorth

2. Strategy in a world of distraction

As we have seen, banks are often required to service customers across an ever-increasing number of channels – and in doing so, they often compete with a multitude of different specialist providers. It is not possible to effect digital transformation and instil a digital culture across every area of operations and every segment of the business, particularly in an area that is as regulated as banking.

Instead, complex organisations like modern banks require a basket of complementary strategies to make the necessary changes, and an overarching vision that ensures that these strategies are implemented by the right people, at the right time, and for the right reasons. Prioritising goals and targets, and ensuring they remain relevant in a fast-paced environment is a real challenge.

> **“We cannot change the whole of Nordea at the same time and probably don't need to either. There are some areas in Nordea which should continue to work in the way they do today. We are going into areas where we believe that rapid changes are needed and there we can work with new technology.”**
>
> **Gunnar Berger,** Nordea

3. Speaking the same language

This might also be referred to as the culture wars between institutions and innovators. Regardless of how banks choose to work with new partners, there is a very real challenge when combining two, almost opposing, organisational cultures. For example, fintechs attach less importance to mobile and automation and digitisation: a reflection that for the innovators these are inherent attributes of digital finance, rather than separate areas of specific focus.

A combination of legacy, size and culture means that institutions and innovators often take very different approaches to technology and business development. Whereas large banks are risk averse by design, with powerful incentives built in to limit perceived risk, digital-first innovators are founded on agile principles that can move with the times. Institutions are familiar with the twentieth century model of production-line distribution, while innovators adopt the 'release now, refine later' mentality of digital warriors.

That conservative culture has merit. But it can prevent real progress, and misidentify existential risks in the new environment. Merging the veto culture and the fail-fast culture is key to the digital switch.

"Banks can't take customers for granted and have to continually convince clients of the value they offer. That's no easy task. Customers want much more than they are getting – and don't trust banks to deliver. If banks get their response right, this could actually be one of their biggest opportunities."

Sheri Brandon, five°degrees

4. Keeping customers on board

This is one of the key differences between the world of the innovators and the world of the institutions. Customers of the former, by definition, have embraced digital delivery of some form. Customers of the latter may need some convincing. Banks have a broad range of customers often with vastly different needs, and different ways of engaging with and communicating with their bank.

So banks have to be careful: focusing on one group may alienate another. The rush to serve consumers may come at the expense of delivering in-demand digital services to more lucrative corporates.

Customers that see one area of their banking transformed may wonder why another area is as slow and staid as ever.

As PwC's analysts point out: "For a bank to deliver against its customers' needs, it now needs very sophisticated analytics and personalisation capabilities." Successful challenger banks like OakNorth have put data and artificial intelligence at the heart of their business model and delivered quicker and more accurate credit scoring as a result.

"Customers want the autonomy and choice that Amazon and others give them. They want a peer-to-peer experience."

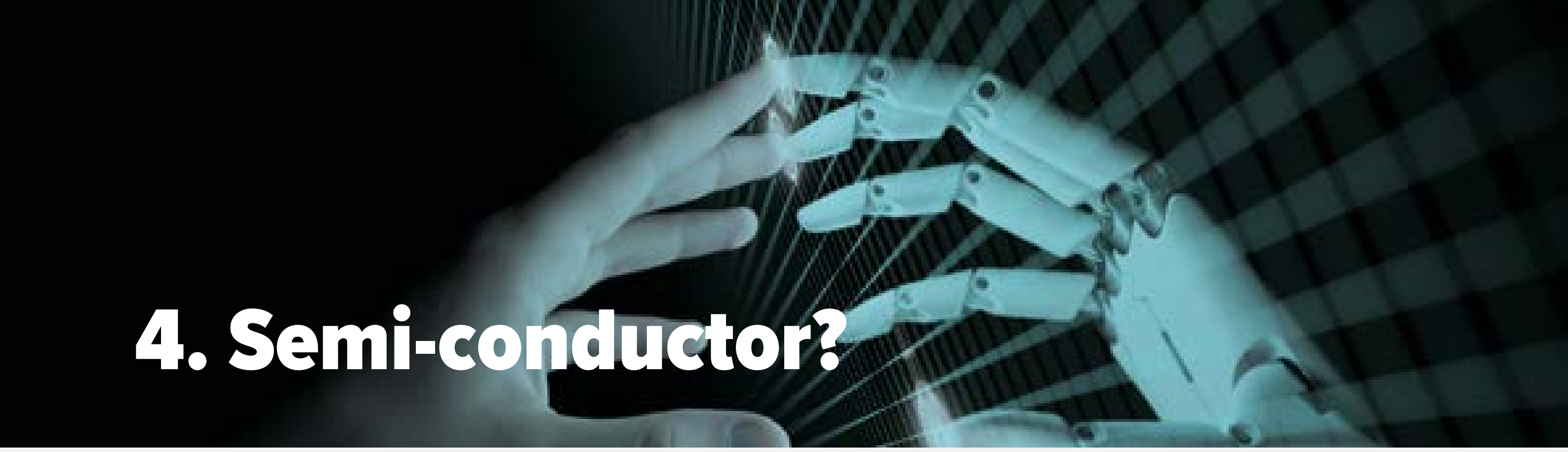
Sheri Brandon, five°degrees

5. Identifying success

Traditional project managers will talk about setting milestones, identifying successes along the journey and setting clear goals. Success, in this model, is pretty easy to identify.

In the digital landscape, which depends on almost constant evolution and in which the agile programming method dominates, those milestones can shift. Success can be a moving target. The changing regulatory environment – such as the implementation of the data management requirements under GDPR – can also move the goalposts and shift the original target out of sight.

Rather than identifying the point at which an innovation project ends, banks may now have to accept that 'mission accomplished' is no longer appropriate. Going for a Minimum Value Proposition, within a quick time-to-market timeframe – with iterations of the proposition taking place after the MVP phase – is a more appropriate approach in this new world.



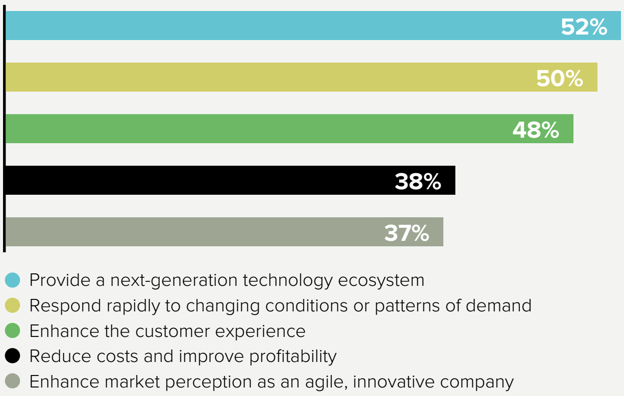
4. Semi-conductor?

Picking the right partners – for the right technology

It is widely accepted that banks cannot and should not approach the new world on their own. Successfully making the digital switch requires a collaborative ecosystem. It is recognised by banks that partnership with fintechs not only creates a next-generation technology ecosystem – and fulfils the visions of the future – but is also the means for ensuring rapid response to changing market conditions and an enhanced customer experience.

In other words, it fulfils what at first glance look like relatively fundamental operational requirements, but which in reality are abilities that have eluded much of the financial services industry since the dawn of the internet.

Benefits of bank fintech partnership



Source: Fintech Disruptors 2018, MagnaCarta

The technology is out there. Fintech hubs can now be found in every continent, and VC investment continues to increase. However, choosing the extent of your ecosystem, how to manage it and selecting the most appropriate partners is not straightforward. What's more, fintech leadership requires a very different combination of skills and attributes to pre-digital banking.

The inability of certain fintechs to scale has also been one of the key dampeners on previous years' exuberance, and has in certain cases limited innovators' ability to compete directly with traditional institutions. 65% of fintechs say that achieving scale and reach is their biggest challenge[1].

The other challenge to address is what do you want from your partners. Is it just the technological capabilities? Is it the product? An attitude to development that will help overcome the cultural divide? There are plenty of ways to co-create and co-innovate new services.

[1] Source: Fintech Disruptors 2018, MagnaCarta

"We are not really trying to buy products. That you do from the traditional industry. I am trying to buy capabilities."

Gunnar Berger, Nordea

How to work with external innovators also remains an open question. Straightforward partnership is the most popular method, while incubation and acquisition are falling slightly from favour.

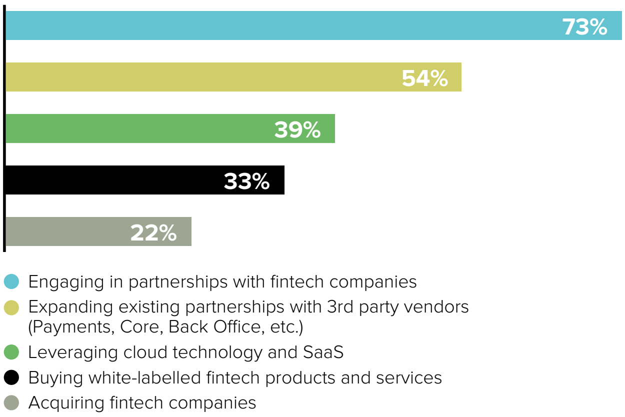
For example, having welcomed more than 100 start-ups since its launch, Barclays Rise incubator is now shifting focus to attract later-stage businesses with the resources and rapid scalability to work with a large, global institution.

"We don't see fintechs as vendors. We see them as potential partners, actually working together and potentially doing revenue sharing and co-branding. It's quite a new thing for us – and for other banks I believe. It will also generate a lot of changes to business models and go-to-market activities in the future."

Gunnar Berger, Nordea

Banks also have to come to terms with changes to core infrastructure that underpins their business. Cloud-based deployment is almost unavoidable, since it is a key component of the agile programming and DevOps that characterise low-risk development of digital services. Banks have, for good reason, been traditionally averse to working with public cloud providers, but it is worth noting that both Amazon Web Services and Microsoft Azure have invested significantly in financial services and particularly in InfoSec: achieving economies and expertise of scale that individual organisations can rarely achieve in these fields.

View from the institutions:
how banks want to work with fintechs



Source: Fintech Disruptors 2018, MagnaCarta

“From the very beginning we wanted to be fully cloud-hosted. By this, I don’t just mean ancillary services such as our customer relationship management platform or our email, but everything down to our core platform. As a business that’s scaling very quickly, the cloud was the right solution for us as it can handle rapidly increasing workloads — it doesn’t matter if we on-board 10 or 10,000 customers, the cloud eliminates the need to try and approximate our infrastructure capacity needs.”

Valentina Kristensen, OakNorth

5. Press on.

Delivering the digital matrix

The challenge here is that the truly digital matrix organisation does not yet exist. There have been anecdotal successes so far – with some dramatic effects. At BBVA[1], committed leadership and the determined focus on designing products that are in-step with today's digital customers is proof of what is possible: its new mobile app has contributed to a rise in new credit-card applications of 80%; an increase in current account opening of 20%; and an increase in sales of investment funds of 50%[2].

For large banks, this is still brave new territory without tried and tested roadmaps for success, and only limited examples of lessons learned.

However, there are some things we can nail down. Digital business transformation occurs in three phases:

1. Experimentation at the edge, where digital experiments are far removed from current business realities or key competencies.
2. Collision at the core, when digital rules challenge traditional industry practices.
3. Reinvention at the root, where digital solutions are delivered in ecosystems across multiple industry boundaries.

Mirroring this there are also three core groups of industry players: incumbents, digital giants and tech entrepreneurs. Reinvention at the root occurs when these three groups are working closely together. There has been plenty of experimentation at the edge. Single-focus challenger banks are also pushing collision at the core. But there has not yet been a successful example of reinvention at the root.

Partly this is because innovation initiatives are always balanced against the hard realities of maintaining legacy platforms, processes and thinking. You cannot become a digital bank without core systems renewal. Although wholly digital services are a desired objective, the complexities of different customer groups mean that digital services are offered as an addition to the main service lines and not as a replacement to them.

The new realism we discussed earlier shows us that only a few are able to take full advantage of the current trend towards open data and put in place the processes to deliver real actionable steps from that data. PSD2 features heavily on the minds of fintechs and bankers and both groups are adopting a largely wait-and-see approach, either exploring opportunities or not yet decided a formal strategy. Only 34% say they are ready to explore opportunities to introduce new services in the light of PSD2[3].

[1] BBVA press release, November 2017, https://www.bbva.com/en/bbvas-customer-designed-new-mobile-app-delivers-astonishing-results/
[2] Source: Fintech Disruptors 2018, MagnaCarta
[3] Source: Fintech Disruptors 2018, MagnaCarta

We can also say that the blended model of innovation – managed at arms-length through partnership and collaboration has delivered successes that can be built on. We might not yet be seeing reinvention at the root, but digital services are driving individual elements: distribution and sales or compliance and regulation, for example. The next step is to deploy digital capabilities to identify new business opportunities, and to take real advantage of the current trend towards open data.

We also have signposts for what organisations across the board are considering next. Investment spend in 2018 continues to focus on discrete and specific areas: 71% say they are focusing on payments in contrast to 26% claim the focus is the more broad banking infrastructure[1].

Interestingly, over the next five years, there is no real stand-out theme. Instead we can expect a relatively even mix of ground-breaking developments such as the deployment of artificial intelligence, alongside improvements to current basic services such as faster payments.

The new realism has given us all an opportunity to assess progress made to date, identify next steps and make develop realistic strategies for the next steps. In addition to the specifics outlined above, making the digital switch and building a stronger connection to customers depends on:

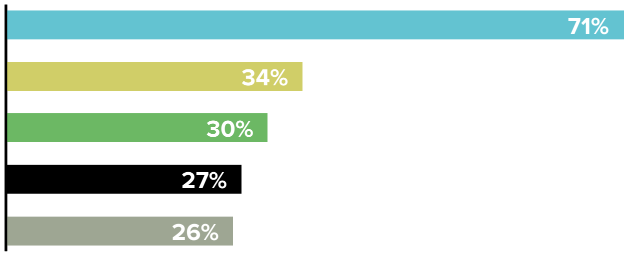
- Harnessing the innovation that is available.
- Identifying what works for specific businesses, customers and product lines.
- Instilling the organisational discipline to learn from progress as it is made.
- Embedding data and analytics in the business to foster a culture of continuous improvement.
- And recognising that, aided and abetted by carefully selected partners, the digital switch is less of a lever to be flipped and more a dimmer control.

Dominant fintech themes in next 5 years

- Growth in deployment of artificial intelligence
- Push for faster and real time payments
- Replacement of cash and physical forms of payment by mobile
- Automation and self-service emerging as the driving force across the financial services industry
- Fintechs becoming service providers to large institutions

Source: Fintech Disruptors 2018, MagnaCarta

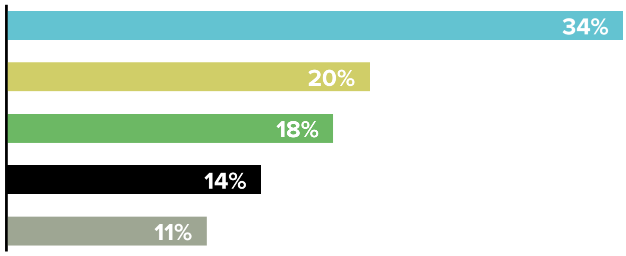
Fintech investment areas 2018



- Payments
- Security, Authorization, Fraud Management
- Consumer Banking
- eCommerce
- Banking Infrastructure

Source: Fintech Disruptors 2018, MagnaCarta

Is the industry ready for PSD2?



- Explore opportunities to introduce new services and meet evolving consumer needs
- No formal strategy has been decided
- We have a strategic plan to introduce one, or a series, of new services
- Identify partners for new, innovative services
- Focus primarily on security to retain customers and ensure compliance

Source: Fintech Disruptors 2018, MagnaCarta

[1] Source: Fintech Disruptors 2018, MagnaCarta

Embrace the customer

Give your customer as much autonomy as you can. They are the only ones who know exactly what they want and when they need it. By enabling them, you will automatically increase customer satisfaction.

The rewired banking philosophy

1. Services over screens
Don't let your channels get in the way of great service and a greater experience. Separate business logic from the service layer to move from omni-channel to omni-access.

2. Keep client data out of core systems

Reduce system complexity. Use core banking systems to create products and manage transactions with customer data in a middle layer to enable a 360-degree customer view.

3. Your customers are your best employees

Improve customer satisfaction by liberating your customers. Use tooling that allows you to give them as much autonomy as you can. They know what they want – so let them get on with it.

4. Open up for APIs
Marketplace banking is the new normal. Use an open architecture solution like Matrix as a gateway to connect with other providers and unlock the full potential of the fintech eco-system.

5. Partners as enablers
Pick partners that give you the flexibility and control to change when you need to change. Reduce vendor dependency with configurable solutions that let you build and develop independently in an agile way.

Report authors

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the fintech engineers