Rethinking banking for an **Always in Beta** world

Report | September 2015

Paul is a 29 year old living in London. He's a typical example of digital natives' emerging financial behaviours around the world. He sees his bank merely as a place to store money, and uses a variety of apps to meet his specific transactional needs.

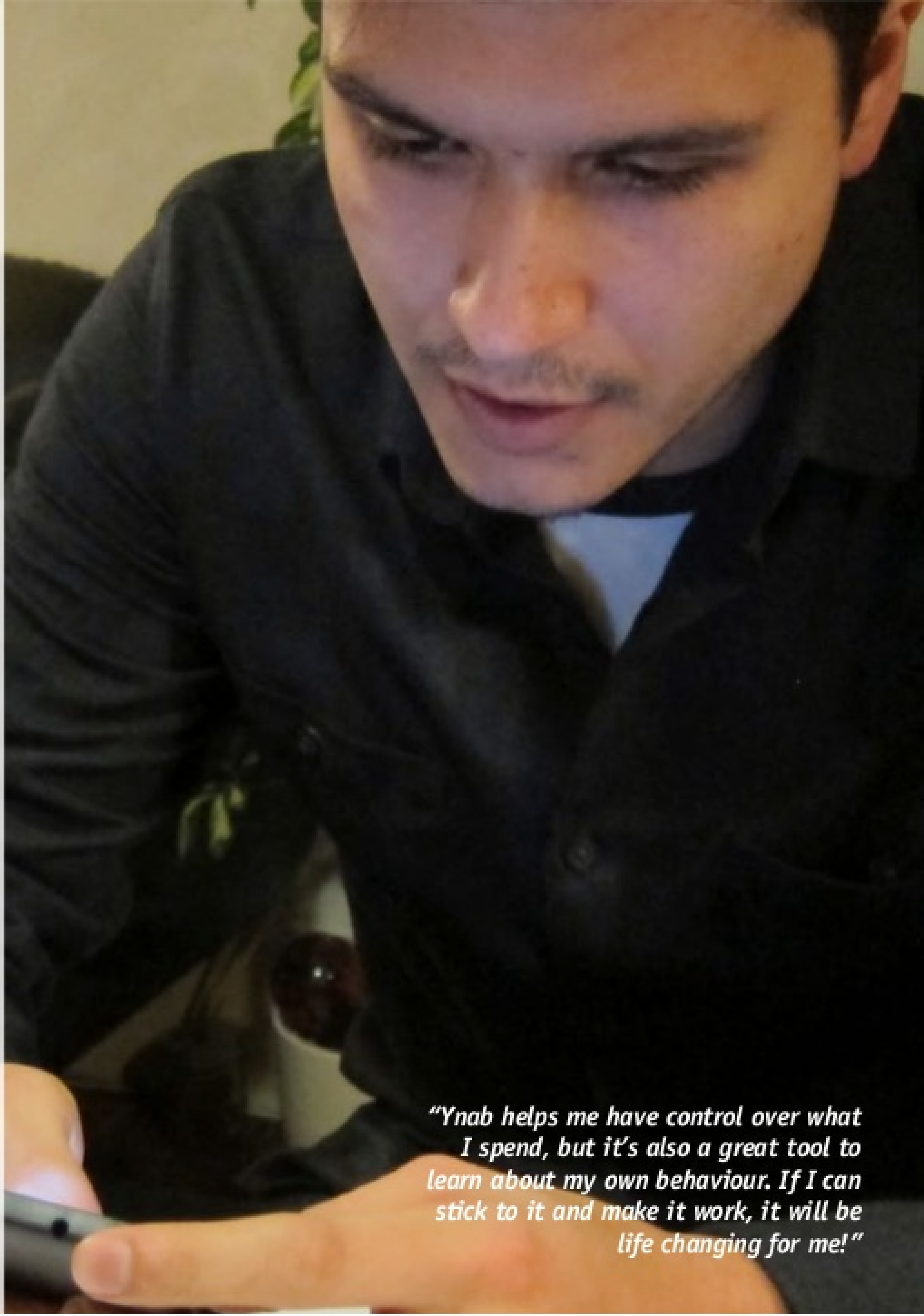
Among others, he has experimented with **You Need A Budget** (Ynab) to track his budget, **Paypal** to pay for purchases, **Venmo** for peer-to-peer exchanges, and **Acorns** to invest. He has not settled on the financial service offers he currently uses, but constantly keeps an eye open for new ones that may be more convenient.

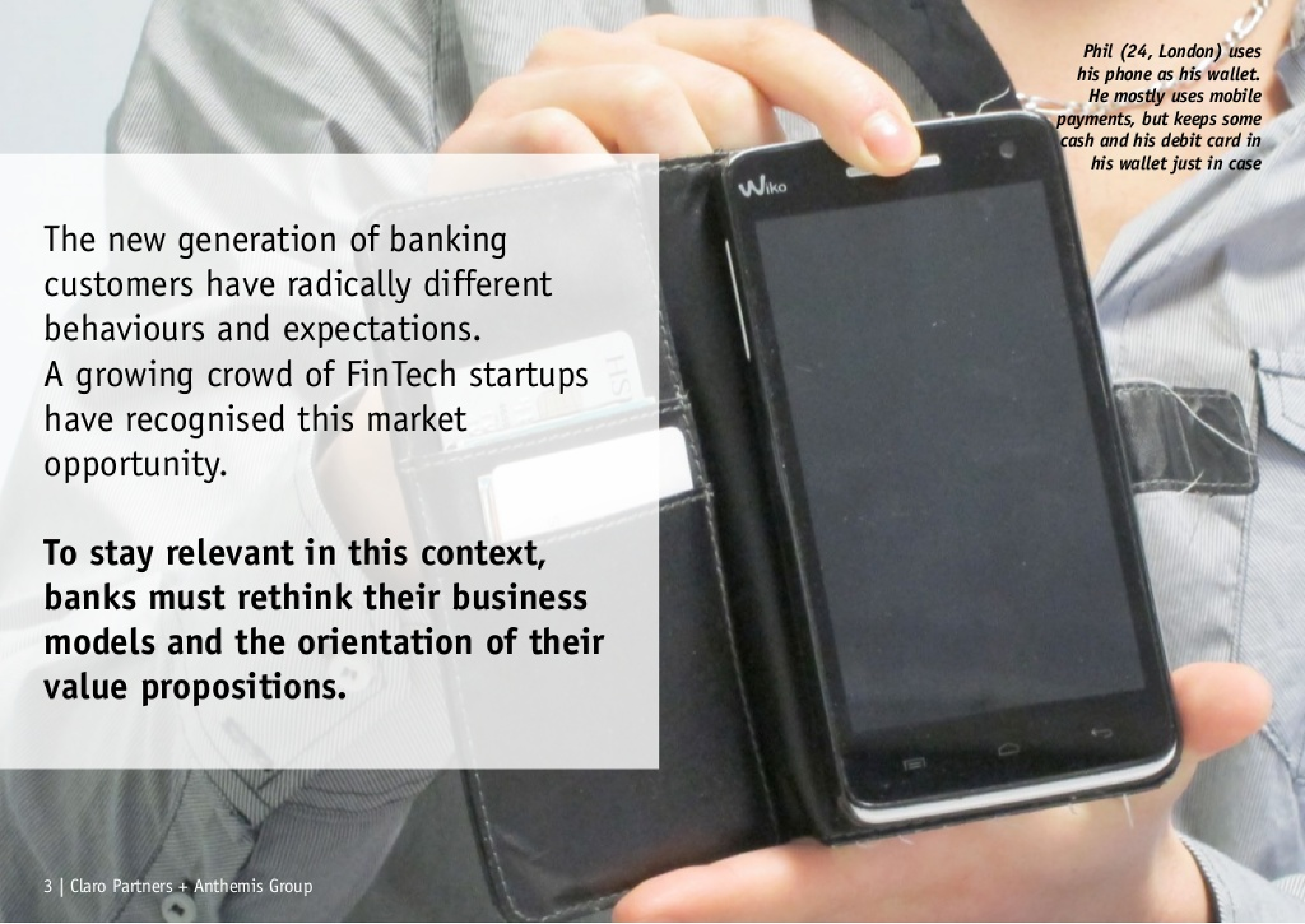
PayPal — Online payment processor

venmo — Digital wallet

acorns Invest the Change — Micro investment app

You Need A Budget. — Budgeting app





Phil (24, London) uses his phone as his wallet. He mostly uses mobile payments, but keeps some cash and his debit card in his wallet just in case

The new generation of banking customers have radically different behaviours and expectations.
A growing crowd of FinTech startups have recognised this market opportunity.

To stay relevant in this context, banks must rethink their business models and the orientation of their value propositions.

Claro Partners and **Anthemis Group** have partnered to help financial institutions understand and be responsive to the changing lifestyles, values, and behaviours of 21st century customers, and the new value propositions emerging to serve them.

We're pleased to present our perspective on how banks can reimagine their offers and business models to serve a customer base that is increasingly shaped by the digital world.

Partner banks of Always in Beta project came together in Barcelona

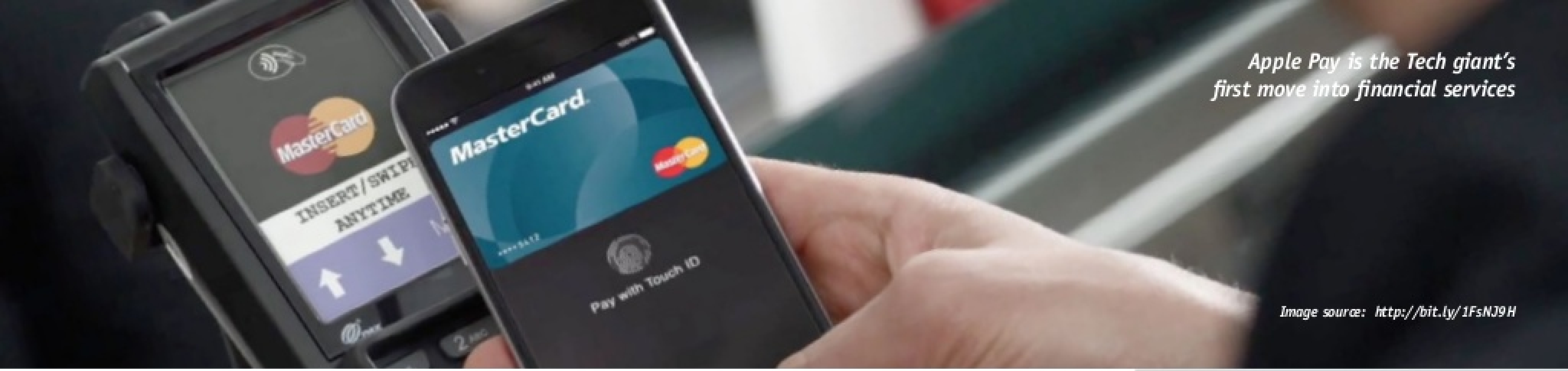
Payfast provides online payment processing for the South African market including Bitcoin payments

There is a growing gap between banks and their customers. FinTech is rapidly filling it.

The Digital Revolution has had a huge impact on the business landscape by lowering cost, distance and time to bring an offer into market. The resulting lowered barriers to entry have allowed many small, agile players to enter the financial services market. Players in this disrupted, competitive landscape do one job very well, rather than trying to bundle mediocre offers together. In the digital context, users have access to information and increasingly expect cost transparency and clear value propositions from the services they use.

The financial industry is at a critical point.

- 1/3 of millenials are disinterested in banks, and believe they won't need a bank at all within five years.
- 2/3 would "rather go to the dentist than listen to what banks are saying", and describe their banking relationship as merely transactional.
- Meanwhile, from 2013 to 2014, global investment in FinTech ventures tripled to $12.21 billion.
- By 2020, more than 30% of banking revenues could be at risk, thanks to new competitors and new trends.



Apple Pay is the Tech giant's first move into financial services

Image source: http://bit.ly/1FsNJ9H

Emerging FinTech players meet customers' changing needs and expectations much better and faster than incumbent banks.

Initially ignored as marginal players, Fintech startups that hit the right note are growing exponentially. Once established, they are hard to compete with, too expensive to acquire and often feel no need to partner with banks.

On top of this, competition is coming from everywhere in the digital space; not just other banks or FinTech startups, but tech companies such as Facebook, Amazon, Google, Apple, and Uber are also making aggressive moves to enter financial services.

Your challenge as a bank is to define your unique purpose and capabilities to meet the needs of a radically different customer profile.

facebook. Google amazon.com UBER

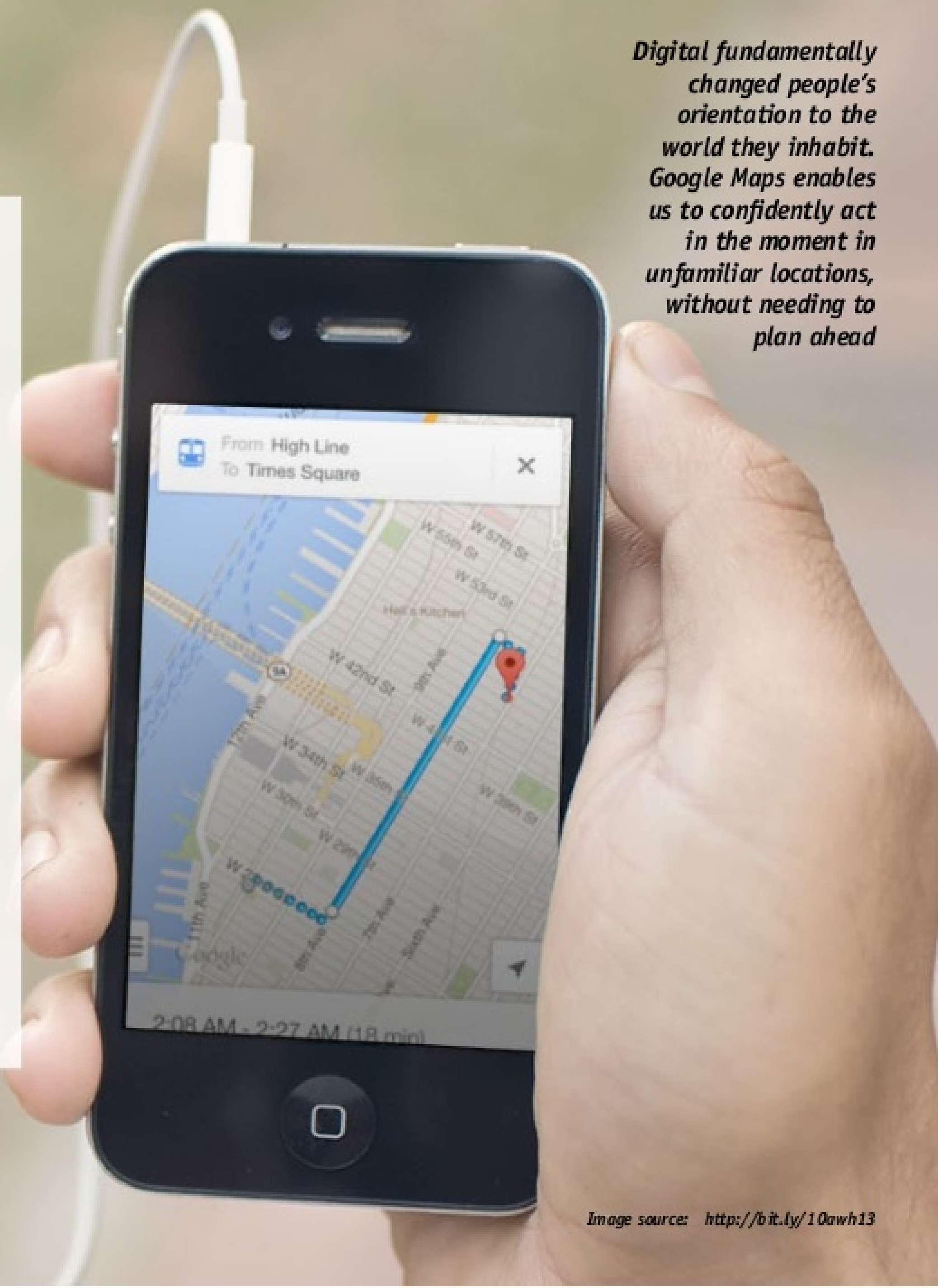
*As of June 30, 2014, over $5 billion in personal loans have been issued through the **Lending Club** platform. Although still a small portion of the whole loans market, **Lending Club** has more than doubled annual loan volume each year since 2007.*

***Uber**, a P2P taxi service, has it's own integrated payment service which elegantly and invisibly integrates payments into the user's experience - an early indicator that many financial functions that are key revenue sources for banks will soon be free or disappear into higher-value experiences.*

Your next generation of customers are shaped by an "Always in Beta" world.

Banks, which are trying to respond to the changing landscape, are focusing on digital natives as a customer segment, and are trying to figure out what young people want. However, being a digital native is not a life stage issue. Being shaped by a digital world in constant and rapid change is not a phase people grow out of, but is the essence of the new customer.

The behaviours, needs and expectations of this new customer will go viral across older age groups, as we have seen through other digital behaviours. Digital natives' expectations will set the banking experience conventions that many future customers will come to expect as well.



Digital fundamentally changed people's orientation to the world they inhabit. Google Maps enables us to confidently act in the moment in unfamiliar locations, without needing to plan ahead

Image source: http://bit.ly/10awh13

Crystal (19, Singapore) has recently been offered a prestigious government scholarship to study abroad. She doesn't want to accept it as it requires her to commit to returning to work in Singapore. "I don't know who I will be when I finish studying" she says

Incumbent financial offers don't work for digital natives' lives in flux.

Financial offers designed for customers with predictable life paths, financial stability and long-term commitments don't meet the needs of digital natives. Banks need to shift their thinking to look beyond digital natives as a youth segment, to understand and develop totally new value propositions that align with and support the lifestyle of this new generation of customers.

From a linear life-path to an unpredictable one

Who are the digital natives?

In our research, we have identified characteristics of digital natives that define them as a global profile. Unlike previous generations of customers, who would choose among a few defined options with fairly predictable endpoints, digital natives live in a context full of options and uncertainty. Their lifestyle reflects a logical response to this environment. They seek flexibility, and choose to keep their options open.

Their values and behaviours support this lifestyle, and are ways to cope with a world in flux. They seek purpose, invest in themselves, and put great emphasis on growing their skills to be equipped to navigate the constantly changing world. They are very opportunistic in leveraging not only financial, but social and personal assets. This allows them to be in a position to respond to unexpected challenges and opportunities.

Hakan (25, Istanbul) complains about his bank's digital offers: "They give me some nonsense graphic analysis of ratio in my current account vs. my savings account. Really!?", he says, "If they're gonna do nonsense, I'd rather they don't do anything and just keep my money safe."

Digitising existing offers isn't enough; banks need new propositions tailored for digital natives

The way most banks are reacting to this new customer profile is to simply digitise their offline offers. However, companies that are thriving in the digital business landscape are those that are not just putting their existing offers online, but are creating totally new digital value propositions and business models that address unmet needs of their users in a way that fits their lifestyle, values and behaviours.

The challenge for banks is to really understand the inherent capabilities of digital, and create completely new business models, value propositions and user experiences that are meaningful for a customer base whose attitudes and behaviours have been shaped by a digital world.

eToro

***eToro** didn't just put investing online, it reinvented almost the entire proposition of trading by offering it within a social, peer-to-peer context, and dropping the barriers of entry.*

New value proposition
Ability to invest in small amounts, learn from peers and manage your own trades

New user experience
Easy in - easy out, simple, customisable, automated, social and participatory

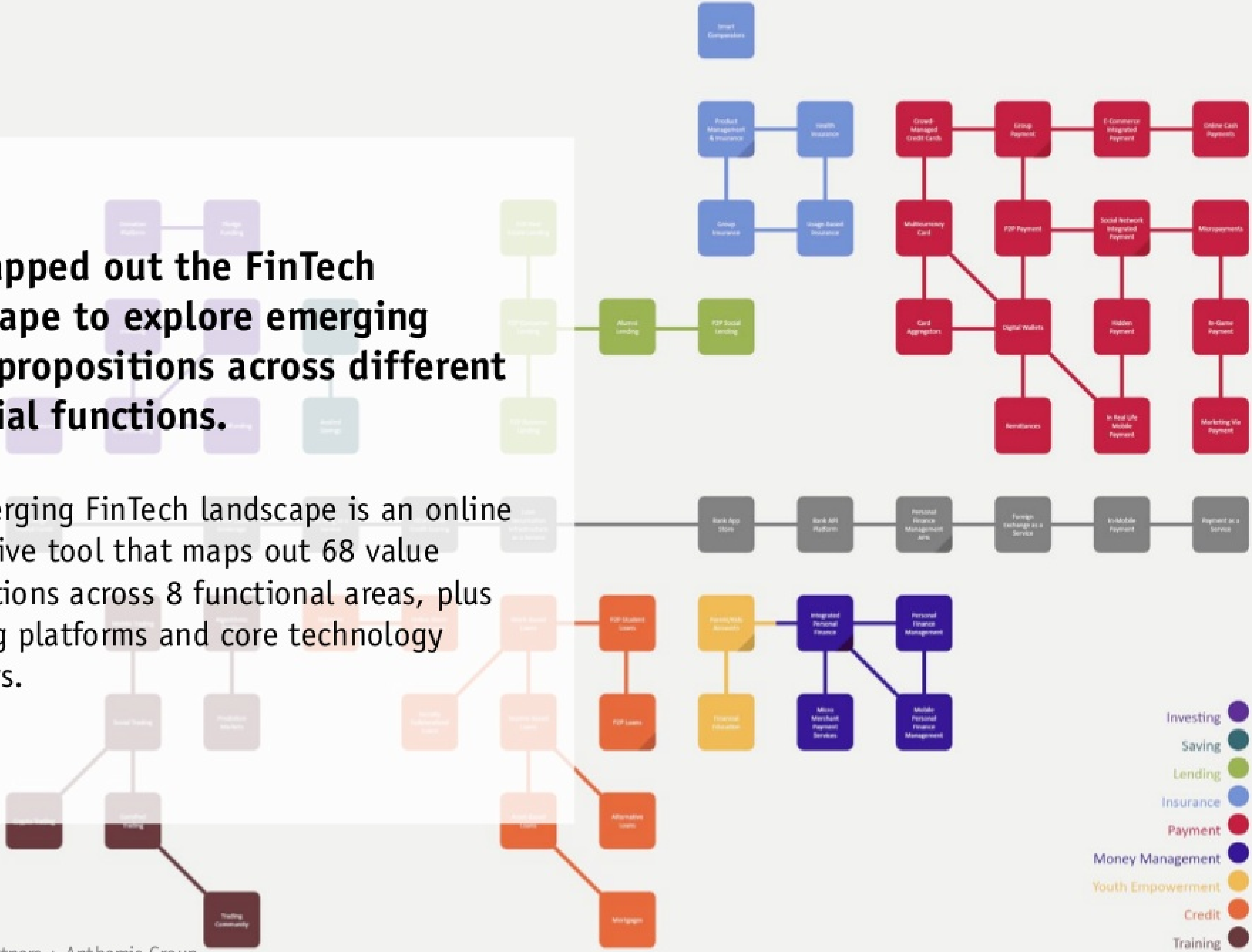
New business model
Free service where revenues come from the spread of individual trades

While banks struggle to understand and engage their new consumer, FinTech startups are taking the opportunity to meet consumer needs in new and innovative ways.

"When the crisis hit the UK, banks started charging more to borrowers and giving less to lenders. In this environment our rates became the most appealing offer. In fact, the reason we grew and are still growing in the UK is the financial crisis!"

– Giles Andrews, Co-founder & CEO of Zopa

Giles Andrews at Zopa offices in London



We mapped out the FinTech landscape to explore emerging value propositions across different financial functions.

The emerging FinTech landscape is an online interactive tool that maps out 68 value propositions across 8 functional areas, plus enabling platforms and core technology providers.

eToro team pitching at Finovate 2015 in London

The FinTech landscape contains niche players using new technology and sleek design.

Retail banking has traditionally centred around the current account, where deposit taking enables highly profitable consumer lending activities such as credit cards, consumer loans and mortgages. Besides allowing banks to price across portfolios instead of single services, this setup helped maintain a relationship with customers and serve all their financial needs.

FinTech has turned this model on its head, fragmenting the financial services industry. Emerging niche players focus on single-product offerings such as consumer loans or savings accounts. Others provide adjacent services such as credit scoring, security software, and payment interfaces. Consumers can now mix and match providers and choose from a range of options, not only in their own market, but across the globe.

Some of the most noteworthy FinTech offerings and new types of banks aptly fuse technology and design elements to respond to user needs.

- With P2P lending, consumers can invest in strangers using safe, social platforms.

- Robo-advisors use algorithms to create the optimal investment portfolio for investors based on their goals.

- New digital banks and payment apps feature personal financial management elements such as budgeting, spending alerts, and savings goals.

FinTech entrepreneurs at work in a co-working space in Dublin

FinTech products combine attention to user needs, technology, and design.

Niche products	Products and services for investing, savings, credit, and payments have sprung up as standalone services....
Design Features	... designed to achieve the simplicity, control, connectivity with other services, integration with other devices, social sharing capabilities, passive optimisation, and highly-informed control that digital natives seek...
Technological capabilities	... driven by technology such as platforms, data analytics, optimisation algorithms, and sleek interfaces...
User needs	... and responding to unmet user needs in new ways that align with the expectations of the new consumer.

__Betterment__ is a 'robo-advisor' that registers users by asking three simple questions to determine their investment goals. The automated investment tool then creates a customised portfolio.

Polish __mBank__ is more than just an online offering, the bank "has the internet in its DNA", and 86% of sales are made online or through its call centres. Its seamless and speedy service are hallmarks of __mBank's__ offering, where loan approvals take just 30 seconds, mortgage plans are discussed over Skype, and paper statements aren't even offered.

Banks may be here to stay, but who owns the customer relationship is up for grabs.

The emergence of a new consumer profile which FinTech startups are eager to serve has fundamentally changed the traditional banks. Regarded by many digital natives with deep suspicion, banks must work especially hard to prove their relevance in their new customers' world.

Digital natives are driven by purpose and are highly social. FinTech startups recognised this early on by including social connectivity, customised services, and transparent pricing models into their core offerings. Some have even marketed themselves as "anti-banks" that compete on honesty and reputation.

Supporting this is an emphasis on simple, seamless user interactions for registration, purchases, transactions, customer service, and exit - through which FinTech offerings gain trust and strengthen their reputations. At times creating their services as an extra layer over banks, these new players win over customers while still utilising existing bank infrastructure.

Image source: http://bit.ly/1Frw0j2

Transferwise is a UK-based company that facilitates low-cost cross-border currency transfers. They organised "nothing to hide" stunts in the UK and the US to attack banks' lack of transparency in fees

Commonwealth Bank of Australia created a new customer proposition that looks beyond the traditional mortgage product: an augmented-reality app that lets potential buyers see inside houses for sale

Image source: http://bit.ly/1bbd4g8

FinTech is now influencing the course of the financial services industry; and banks face a choice in how to participate.

The financial industry has a general tendency to turn a blind eye to new players until the threat becomes too big. However, banks are approaching a crossroad where they will have to choose whether to yield the customer relationship to emerging FinTech, or fight to maintain it by competing or cooperating with the new upstarts. Taking a back seat doesn't mean being inactive: a new and viable option is API banking, "where banks allow third-party developers to leverage institutional services to design new products." On the other hand, banks that want to maintain the customer relationship need to rethink their products, customer engagement, and FinTech engagement models.

After a group of fintech companies organised and advocated for it, the UK government instituted regulatory changes that favoured financial services innovation. We expect regulation changes in other markets to follow this trend.

*At ten years old, **Zopa** has proven its staying power in the UK's loan market; and with its IPO in December 2014, **Lending Club** has demonstrated that it has the size to compete with major banks.*

***Credit Agricole** was one of the first banks to launch an open API initiative, which is now the **Credit Agricole** app store. Applications allow customers to budget their finances and manage their credit card accounts. The API also uses its own Geolocation service for enhanced customer data on how the apps are being used.*

Banks that choose to play in the B2C space need a new approach to building relationships with digital natives, and designing and delivering offers to them.

We have identified four preconditions for banks to successfully create customer-facing propositions for digital natives:

1. Align your engagement model to your new consumers’ mindset
2. Think beyond segments; address financial modes
3. Tailor your offers to their lifestyle, values and behaviours
4. Define your FinTech strategy

Singapore Impact HUB

1. Align your engagement model to your new consumers' mindset

Digital natives have high expectations from the products and services they use, and no mercy for offers that are not relevant to them. They rely on their networks, want to understand the implications of their choices, and to have control over their own decisions. Banks need a new engagement model to align their offers and communication with this new customer's expectations, their way of thinking and decision-making.

Rob owns and runs a chain of restaurants in Singapore. Last year he needed to take a loan to invest in his business. However, he was offered very low amounts as he hadn't taken a loan before. "They offer a low amount with the logic that I should build a relationship with them", he says, "Why should I build a relationship? They should build a relationship with me!"

Rob (28, Singapore) talking to us in one of his restaurants

1. Align your engagement model to your new consumers' mindset

There are five key engagement elements that are fundamental for banks to create a successful relationship with their customers. However, there is a misalignment between how banks presently approach these elements and the mindset of the digital native (DN) customer.

	Traditional approach	*New imperative*
Trust	Banks expect their institutional **authority** to equate to trust	DNs develop trust based on **shared** interests and experiences
Loyalty	Banks provide offers that lock in their clients, and call this **loyalty**	DNs expect banks to prove their **relevance** at every touch point
Planning	Banks emphasise offers to help **plan** and build a financial future	DNs need offers that **prepare** them for challenges and opportunities
Financial management	Banks encourage customers to **delegate** all their financial decision making	DNs want to get smarter about choices and be **enabled** to make their own financial decisions
Communication	In attempt to be transparent, banks push all the **information** they have on to their customers	DNs don't want information overload, but to get to relevant **meaning** in the moment

New players are already engaging their customers in ways that respond to their changing lifestyle and mindset.

KAPITALL

Kapitall *enables its users to manage their own investments portfolios. It uses video game mechanics to develop a playful user experience. Through experimenting, users can create their first virtual, then real brokerage portfolios.*

Even

Even *helps its users prepare for financial downtimes by saving their extra earnings at good times to balance the lows. It meets a key need for people with increasingly unstable income streams by providing a consistent paycheck every week.*

2. Think beyond segments; address financial modes

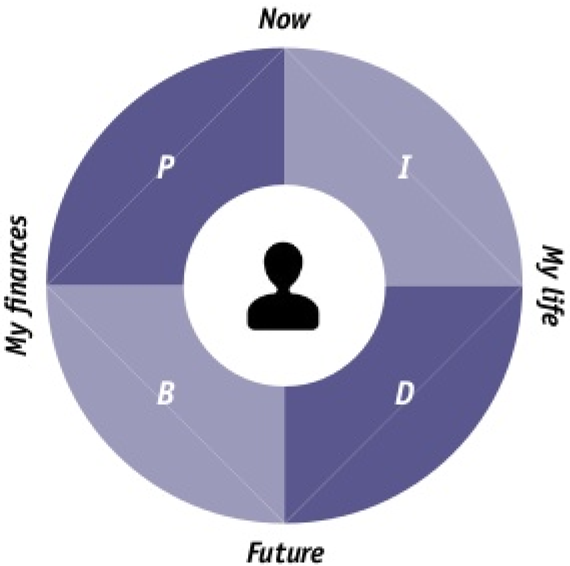
Digital natives don't have pre-defined life paths, nor do they have steady financial behaviours. Segmentation based on demographics, or profiles based on life-stages aren't enough to define their financial needs. Banks need a new model to complement and expand their existing segmentation models.

When it comes to investment, Sean seems to be very conscious about managing his money. He has taken a financial trading course to avoid relying on a broker, and he checks his portfolio daily to make sure he's building his future capital. He reveals a different story when it comes to managing his daily budget. He spends most of his salary in the first half of the month, and spends the second half patching by "surviving on pasta".

Sean (27, Dublin) in his apartment

2. Think beyond segments; address financial modes

Banks traditionally have a segmentation model based on income or financial performance. Some banks, in an attempt to be customer-centric, segment their customers based on life stages, which is a good step forward, but is still not enough to meaningfully address the digital native customer. These models do not apply to the digital native's lifestyle, which is based on constant change and adaptation to the environment. With a life-path defined by choice and uncertainty, digital native customers cannot merely be boxed into segments. We need a new model to address the variations in their financial behaviours.



We have created a modal framework that addresses the four key financial modes of digital natives. These modes are groups of financial behaviours based on goals and orientation, and would apply to most customers. What is unique to digital natives is that they very rapidly switch between different financial modes, or even inhabit multiple modes at the same time. This multi-modal state often creates tensions in their lives. However, offers available from banks today are designed to address only one mode. The opportunity for banks is to create financial offers that help their customers resolve the tensions between their multiple financial modes.

Innovative offers are already addressing tensions in their users' financial behaviours.

Payoff *motivates its users to move towards their dreams even though they haven't financially built for it. The social aspect of the product includes sharing of dreams, the ability to tag friends in dreams, and the posting of accomplishments on your Facebook wall.*

Saved+ *helps its users save while they spend. Once users link their account and card to* ***Saved+****, in each transaction an extra percentage is added to be transferred from a source account into a saving account.*