

Reinventing Financial Services

Financial Services Leadership Summit
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FSL

VIEWPOINTS

Reinventing financial services

“Things are changing faster than we can keep up.”

—Summit participant

Talk of disruption in financial services has been common for many years. Bill Gates famously proclaimed in 1994 that “banks are dinosaurs ... we can bypass them.”¹ In the years since the global financial crisis, speculation about the disruption of financial institutions has led to hyperbolic claims, such as those emerging recently from a Gartner analyst who claimed that within twelve years, 80% of financial services firms would either go out of business or be rendered irrelevant; this seismic shift would be driven by new competition, changing customer behavior, and advancements in technology.² While such predictions may be exaggerated, they reflect a reality that almost every financial institution leader now acknowledges: they and their institutions face tough challenges and difficult choices about their business and operating models. Many leaders insist that their survival will need not just a natural evolution in financial services, but a more drastic transformation. A summit participant asserted, *“There is a difference between innovation and transformation. Banks, for example, have been very innovative in the last 50 years if you think about internet banking, mobile, credit cards, ATMs, etc. But innovations are improvements in the way things happen—they are linear and expensive. We are approaching the point of nonlinear disruption.”*

On October 2-3, 2018, directors and executives from among the largest banks and insurers globally, fintech executives, regulators, and other subject matter experts met in London for the Financial Services Leadership Summit to discuss the timing and nature of this nonlinear disruption. Leaders from large financial institutions are working hard to keep up with the changes underway, but the pace is accelerating such that it is difficult for executives, never mind non-executive directors, to keep abreast of advancing technology and a changing competitive landscape and then determine the appropriate course of action in response. They also acknowledge the challenges inherent in transforming massive organizations with long histories of operating in traditional businesses and traditional ways.

“There is a difference between innovation and transformation ... innovations are improvements in the way things happen—they are linear and expensive. We are approaching the point of nonlinear disruption.”

—Participant

Most leaders tell us that they have no intention of completely upending the status quo, despite the dire predictions from some commentators. As they look into the future, summit participants do see a changing financial services ecosystem; one in which incumbent firms need to adapt operating models, structures, and systems to improve agility and efficiency, and one where they may play different roles than they have historically. Some institutions will become utilities in some businesses, the pipes, the product manufacturer, or the balance sheet for those who sell directly to customers. Some businesses may become commoditized, with pressure on pricing eroding margins. Some firms will choose to compete in new ways for customers, using their core offerings as a platform to expand services and offer access to third parties. New partnerships and different forms of collaboration are already emerging, as some fintechs and tech companies become competitors, but also partners. The changes are coming so rapidly that leaders are both careful not to make imprudent bets but also endeavoring to move quickly enough to ensure they don't get left behind. They also see traditional risks, like geopolitical risk, increasing and climate change moving up the risk agenda, with limited political will to address it. They must manage these risks and manage their legacy businesses and legacy systems even as they work to transform for the future.

This *ViewPoints* synthesizes themes emerging from the discussions over the course of the summit. It is organized in the following sections:

- **Disruption in financial services: the pace is rapidly accelerating (pages 4–16).** The accelerating pace of technological advancement and the applications in financial services, are creating opportunities to serve customers in new ways and giving rise to new entrants who are achieving real scale and experimenting with innovative models. Incumbents see potential to apply their own innovative approaches, but the rapid changes make it difficult to predict how different businesses will be impacted and what investments and strategies will be most effective.
- **Incumbents struggle to respond to the pace of change in financial services (pages 17–29).** Large financial institutions were not designed to respond with agility to this pace of change. But they are experimenting with new systems, new structures, and new approaches. They are also expanding acquisitions and partnerships with third parties, focusing on core competencies, and considering new business models.

- **Financial inclusion: a commercial opportunity** (*pages 30–38*). One largely untapped opportunity for financial institutions is expanding services to underserved markets and customers. Technology is enabling new approaches to identity, credit scoring, and service provision. That in turn is opening up opportunities to profitably provide services to customers historically underserved by the financial system, including small businesses.

Disruption in financial services: the pace is rapidly accelerating

A summit participant observed, “We have been hearing since the collapse of Lehman Brothers that financial services needs to change,” and noted that relative to past predictions of disruption of financial services, “Right now, I feel like we are on the cusp of something very different.” Another participant also noted the difference between prior discussions and the 2018 summit: “Two years ago, a lot of this was theoretical. Now, it is happening.”

“Two years ago, a lot of this was theoretical. Now, it is happening.”

—Participant

New technologies and growing competition are putting pressure on incumbents to improve customer service, explore new business models, and consider different kinds of investments and partnerships. Among the wave of non-traditional competitors, big technology companies could be the most disruptive if they increasingly move toward direct competition with financial services institutions. New business models are already emerging, and although many of the best-known examples are in retail and consumer businesses, new technologies have the potential to drive unprecedented transformations and competitive shifts in commercial and wholesale markets as well. The same technologies that enable new entrants to compete with established incumbents are also changing how incumbents themselves operate, manage information, and engage with customers.

At the summit, participants discussed the changes occurring across the industry, including the growth of fintech and techfin (technology firms that provide some financial services), and the technologies that are enabling new approaches. This section of *ViewPoints* synthesizes key themes that emerged over the course of the summit and explores the landscape from the following perspectives:

- **Fintech and other tech firms are growing in size and relevance in financial services**
- **Further technological advancement could transform financial services**

Fintech and other tech firms are growing in size and relevance in financial services

The disruptive potential of fintech has long been a topic of network discussions, but the nature of these conversations has shifted over time. In his annual letter to shareholders in 2014, JPMorgan Chase CEO Jamie Dimon said of fintechs, “They all want to eat our lunch ... Every single one of them is going to try.”³ As time passed, and many startups struggled to achieve scale, some financial services

leaders became less worried about the potential for major disruption. They recognized that massive customer bases, strong balance sheets, and substantial amounts of capital to invest in technology and promising start ups made it possible for them to respond from a position of strength. But along with those advantages came the handicaps of legacy infrastructure and outdated technology. Unencumbered by old systems, empowered by new technologies, and attractive to talented employees, fintech firms have continued to grow. Investment in fintech companies is on pace to reach \$100 billion globally in 2018.⁴

“Product by product, if someone figures out how to do it cheaper, and better, it will crush the margins in each.”

—Director

While technology is lowering barriers to entry in the sector, governments, eager to encourage competition, are simultaneously working to reduce regulatory impediments. As this wave of new competitors and technology continues to reshape financial services, one participant suggested that we are still in the first half of what could be a 20-year “golden era of fintech.”

While new fintech firms are gaining meaningful market share in some businesses or introducing new models that could transform traditional financial services, large technology firms could ultimately present greater competitive threats or opportunities for collaboration.

Fintech will continue to grow

Across financial services and around the globe, fintechs are introducing innovative business models and leveraging technology to serve customers differently. Today, fintechs make up 12% of all ‘unicorns’ (startup companies valued at over \$1 bn) globally.⁵ Many are focused on the consumer space, where technology has enabled them to reach and acquire customers more easily. Some challenger banks in the West, like N26 out of Germany and Revolut in the United Kingdom, now have over 2 million customers and are operating in as many as 18 different countries.⁶ The largest insurtech companies have collectively raised nearly \$1 billion, with total valuations approaching \$9 billion.⁷

Rapid growth has led to bold claims. Revolut founder Nikolay Storonsky recently predicted that, in 10–15, years, “there will be like two or three major global fintech players who will take 95% of [the] business from banks”⁸ by offering a “cheaper, better experience.”⁹ This fintech, like many of its peers, is targeting younger customers—their average age is currently 34—and marked by agility in deploying technology and in its organizational design. Though the customer bases of global financial institutions continue to dwarf those of fintechs, the continued scaling up of these startups poses growing competitive threats to the incumbents. As one director observed, *“Product by product, if someone figures out how to do it cheaper, and better, it will crush the margins in each.”*

Some businesses are already seeing significant disruption

New entrants are taking share from incumbents by offering innovative services or better prices.

Payments and lending have seen the most new entrant growth

Some of the greatest inroads from new competitors have come in retail consumer banking:

“In things like payments ... we will end up buying those companies or they will end up becoming potential partners, because the data is so valuable.”

—Bank Executive

- **Payments.** The \$100 trillion payments market has long been dominated by major banks, credit card companies, and other financial firms. But new entrants are emerging. For example, Ant Financial, through its AliPay service, and WeChatPay, are now handling nearly half of all domestic payments in China.¹⁰ At the summit, a participant said, *“Square’s valuation is up 250%. PayPal and Square are the fintechs to watch when it comes to getting scale and getting to the other side of that curve.”* Both Square and PayPal’s primary businesses are in different aspects of facilitating and processing payments. Stripe, an online payment processing company based in the United States, is used by businesses such as Facebook and Lyft as the “financial backbone of their operations.” In 2017, the company partnered with Amazon to handle a large portion of the e-commerce giant’s transactions. As a result of its growing commercial success, Stripe’s valuation has jumped from \$9 billion in 2016 to \$20 billion in 2018.¹¹

New entrants are now offering back-end servicing and other functions traditionally provided by banks, including some that have not seen new entrants in decades or even centuries. ClearBank, the United Kingdom’s first new clearing bank in more than 250 years, uses state-of-the-art technology and other innovative services to clear payments faster, automate business processes and reconciliation, and lower cost.¹²

“Everybody is racing for the front end, the apps and the retail products, we are simply sitting behind and doing the payment financing. Bankers provide such a poor service to customers when it comes to payments—it might take an hour, two hours, or three days. Through an API and cloud provider, we have connected to the [central bank] and are now competing with those older banks who are all dealing with legacy IT problems,” said one challenger company executive. One bank executive predicted, *“In things like payments—my personal view is that we will end up buying those companies or they will end up becoming potential partners, because the data is so valuable.”*

“Lending is growing significantly faster than our market share is.”

—Fintech Executive

- **Lending.** Peer-to-peer and online lending represents a major market for growth outside of traditional incumbents. Funding Circle, an online marketplace that enables investors to lend money directly to small and medium-sized enterprises (SMEs), went public in October 2018, representing a significant landmark for the industry. A participant said, *“If you are not already tracking Funding Circle, you should be. Start today and tell your people to pay attention.”* Funding Circle is just one of many peer-to-peer lending platforms that have grown significantly since the financial crisis, among them Lending Club, Prosper, SoFi, and Zopa. In 2016 online platforms provided approximately 15% of all SME loans in the United Kingdom.¹³ In the United States, “the stock of personal loans outstanding has grown to about \$120 billion ... That compares with \$71.9 billion—worth around \$90 billion adjusted for inflation—when the subprime mortgage crisis crescendoed.”¹⁴ Much of this growth can be attributed to fintechs: “Financial technology companies like Lending Club, Prosper, and Avant account for about a third of this lending, up from less than 1% in 2010.”¹⁵ A bank executive cautioned, *“Competition will definitely come, but be aware of excess capacity; that can result in a catastrophic outcome.”* A fintech executive countered, *“I think we have to put the growth in lending into some context. Lending is growing significantly faster than our market share is. I also think if you take a cross section of the lending that we do, you could argue it is of higher quality and more prime than it is for the banks.”*

Innovative models are emerging in other businesses

Beyond fintechs focused on core banking services, new models are emerging elsewhere. While their impact is still relatively small, they could have an even greater effect on the shape of financial services in the future:

“It’s about finding a way to feed customers content and get time on their mobile device.”

—Participant

- **Platform models.** Monzo, one of the larger challenger banks in the United Kingdom, provides demand deposits and current accounts. Its ambitions seem to be focused less on traditional banking and more on building a platform for other products and services. Recently, CEO Tom Blomfeld said, “We don’t do much of maturity transformation,” instead he suggests that the “bank of the future will be a marketplace,” where customers can easily move money into peer-to-peer lending or choose from multiple providers for things like mortgages and loans.¹⁶ According to one participant at the summit, *“That’s the opportunity. It’s about finding a way to feed customers content and get time on their mobile device.”*

- **Insurtech.** The insurance sector has seen fewer startups achieve the kind of scale now seen in banking. Nonetheless, innovative business models are emerging from insurtechs. They are creating new insurance products in response to changing customer needs, such as Slice, which provides on-demand insurance for home and ride sharing, or Trov, which offers single-item, real-time insurance on demand. Laka, a bicycle insurer, allows insureds to benefit when its collective claim rates improve. Lemonade, a New York based insurtech, uses artificial intelligence and chatbots to make good on its promise that customers can become insured in 90 seconds and receive claims payments in just three minutes.¹⁷ The company also runs a “Giveback” program, annually donating a portion of underwriting profits to nonprofits of the customer’s choice.¹⁸ A director said this insurtech provides an instructive reminder for incumbents: *“Lemonade is like how insurance started: getting together to solve problems. Insurance companies are working to reduce risks—we’re the ones who got sprinklers into buildings and seatbelts into cars. We need to figure out how to get back to being seen as a valuable contributor to customers and to the community.”*

Technology giants’ platforms could create massive financial services competitors

For years, industry analysts have pointed to large platform technology companies as a major threat for disruption of financial services. A participant said, *“In the last five years there has been a major change in attitudes about Big Tech as a competitor. It has become clear that they demand our attention as a real competitive threat.”* The largest fintech in the world is Ant Financial, which emerged from Chinese internet company Alibaba. Ant Financial generated \$10 billion in revenue in 2017 and was recently valued at \$150 billion, a higher valuation than Goldman Sachs and approximately equivalent to Citigroup.¹⁹ Its 620 million online payment users completed transactions totaling more than \$8 trillion in 2017, more than were handled by Mastercard.²⁰ To date, different regulatory regimes and strategies have kept the largest Western tech companies from moving into financial services as directly as Alibaba has with Ant Financial. One commentator said, *“Alibaba and Tencent are like integrating PayPal, Amazon, and Facebook all in one. They are very different. And their ambitions are different too.”*²¹

These tech companies have platforms that give them enormous reach and connectivity to their users: in 2017 Google surpassed 2 billion monthly active users on its Android platform, and in 2018 Amazon topped 100 million Prime members.²² Using these platforms, technology giants can roll out financial services products at a moment’s notice. Piyush Gupta, CEO of DBS, observed,

“For Amazon, Facebook, Google, or Alibaba, their cost of customer acquisition is zero. And if your cost of customer acquisition is zero, then your capacity to be able to improve the customer experience is just dramatically different than for any other kind of fintech.”²³ A 2017 survey found that 31% of banking and insurance customers globally would consider switching their accounts to Google, Amazon, or Facebook if the tech giants offered financial services.²⁴

Some big tech companies, Amazon in particular, are already more actively involved in financial services than many realize (see chart below).

Amazon is active in financial services



Source: CB Insights²⁵

The threats from tech firms go well beyond traditional banking and extend into asset management and insurance. Morgan Stanley president Thomas Kelleher told analysts that retail wealth management is “very clearly open to disruption.”²⁶ A summit participant said concerns are growing in the insurance sector as well, “Some global insurers went to visit Amazon and came back incredibly worried. Amazon is the biggest employer of data scientists in the United States, and they are hiring insurance people as we speak.” Research firm Bernstein recently noted, “We think Amazon is well placed to disrupt the industry and, given the industry’s profitability, may well be minded to do so.”²⁷

Tech firms: potential collaborators?

Commentators still question whether technology companies want to deal with the regulatory headaches of becoming full-fledged financial services firms, as well as

“Big Tech does not want to be a bank. You might hear them say they want to be a bank, they want a charter, but they don’t.”

—Participant

the associated compliance costs. A participant asserted, *“Big Tech does not want to be a bank. You might hear them say they want to be a bank, they want a charter, but they don’t. They don’t want to deal with the stuff incumbents deal with.”* Thus far, many have chosen to partner with banks and other providers rather than attempt to compete with them directly. Amazon’s forays into financial services are generally viewed as ways to support growth in its core business, intended to add more customers and merchants to its platform and to make buying and selling easier.

Further, many tech giants count large financial institutions among their biggest customers, for example, banks using Amazon or Google cloud services. This may slow the giants’ ambitions to compete head-to-head. Ant Financial, under pressure from Chinese regulators, states that it seeks to enable banks to make loans to customers and that it is a technology and platform provider, not a financial services firm. According to Reuters, Ant plans to make up to 65% of its revenue from selling technology services; direct financial services are projected to account for only 6%.²⁸

Technology companies may have the greatest impact on financial services through strategic partnerships. For example, Amazon has reportedly discussed partnering with JPMorgan Chase to create a “checking account-like product” for customers.²⁹ Though incumbents worry about Amazon becoming a competitor, partnering could present a compelling opportunity. A participant said, *“The real threat could be if a major financial institution were able to achieve an exclusive partnership with one of the big tech companies.”* However, another director wondered about the risks of partnering with such a firm saying, *“They are the world’s biggest intermediaries, swallowing a large part of the value chain. It would be great that you can plug in, but how much will they control? How much will they leave to you?”*

“They are the world’s biggest intermediaries, swallowing a large part of the value chain.”

—Director

Traditional players maintain important advantages

“You’ll see a lot of fintechs that just do one thing and it is really all just hype,” admitted a fintech executive. Most fintechs are focused on competing in specific activities or niche businesses, and in many cases remain dependent on traditional financial services platforms to generate other sources of revenue. Indeed, the signals are still mixed regarding a transfer of customers and value to emerging competitors. Fintech have made the greatest inroads into retail and consumer banking, lending in particular. However, there is a possibility that this market is already reaching a peak and most customers continue to maintain traditional bank accounts as their primary account. A director noted that even the leading

wealth management apps, like Nutmeg, Acorns, and Mint *“are not really growing. There was a lot of fear when they came out, but they haven’t achieved scale.”*

“One thing worth noting: we’ve actually been getting pressure from fintechs to become regulated.”

—Regulator

One director said, *“We have our problems, but we’re still global banks—our customers aren’t leaving for a startup.”* Data on bank switching in the United Kingdom showed that, in the first three months of 2018, more people were still moving to other traditional banks than to fintechs or challenger banks.³⁰ Similarly, a study of 1.5 million mobile-phone users in the United Kingdom found that, between April 9 and July 1 of 2018, the 10 most-used banking apps were all from traditional banks.³¹

Fintechs are increasingly being regulated

Network participants often point to the uneven playing field between fintech startups and heavily regulated, large, and established financial institutions. As one director said, *“One reason fintechs have been successful so far is because they have relatively low market share and are not regulated.”* Fintech executives were quick to challenge the notion that they are universally unregulated. A fintech executive pointed out: *“In most countries if you are a lender you are regulated. It is the same for fintechs as it is for incumbents in that regard.”* A regulator said, *“One thing worth noting: we’ve actually been getting pressure from fintechs to become regulated.”* Though many see regulatory oversight as a strong barrier to entry for the financial services industry, many fintechs are confident that it is a challenge they can overcome and one that may even help them. One fintech executive said, *“We can be both more compliant and more convenient. We are ahead on AML [anti money laundering] and KYC [know your customer], so the regulators like us.”*

“You now have the ability to use big data in positive ways, to tailor risk and price for the customer.”

—Participant

Given their relative sizes, fintech start-ups are unlikely to face the same level of regulatory requirements and supervisory intensity as large incumbents. Financial services regulators are starting to examine big tech companies, as well, but regulatory and supervisory frameworks are still being developed.³²

Further technological advancement could transform financial services

Technologies that are enabling new sources of competition could also allow incumbents to build innovative business models, reduce operating costs, and improve speed and efficiency. These technologies include:

- **Data analytics and intelligent automation.** For decades, financial institutions have maintained enormous amounts of data, but it is only recently that they have focused on developing the technology and capabilities to leverage that data. A participant said, *“One of the things about this space—the speed at*

“Blockchain is about trust and transparency ... It might seem like it’s all hype right now and that’s because we’re not there yet, but it is coming.”

—Fintech Executive

“I struggle to see how boards will be able to keep up with technology advancement.”

—Director

which it’s moving. You now have the ability to use big data in positive ways, to tailor risk and price for the customer, and deliver services to them.” Artificial intelligence and machine learning methods can use these rich data mines to automate even relatively sophisticated processes, including credit management, fraud detection, trading, and investment advising, at times surpassing human beings in finding patterns in data, especially highly counterintuitive patterns that would otherwise go undetected.

- **Application programming interfaces (APIs).** APIs enable third parties to access, in a controlled way, the systems and data of large financial institutions, providing new opportunities for collaboration and easier customer access to incumbents’ products and services. APIs raise important questions about strategy and risk, including liability, competitive threats, and the potential for disintermediation.
- **Blockchain.** ‘Blockchain’ refers to a class of distributed ledger systems, secure distributed databases that allow for the verification and validation of information without the need for a central authority like a bank. Each new transaction depends on data from preceding transactions, verified by mathematical tests that, in theory, make the ledger indisputable and immutable. A fintech executive said it is still early days for the technology: *“Blockchain is about trust and transparency. The time will come when it is vital. It might seem like it’s all hype right now and that’s because we’re not there yet, but it is coming.”* Some institutions have already experienced success in applying blockchain technology to areas such as trade settlement, trade finance, international payments, KYC, customer document storage and exchange, and asset and liability management.
- **Cloud services.** Many financial institutions are moving data to cloud systems to reduce costs, enable better access to data, and support analysis. A recent study predicted that, by 2021, banks will spend more than \$12 billion on public cloud infrastructure and data services, up from \$4 billion in 2017.³³ While many institutions were initially hesitant to move from their own servers to the cloud, one participant noted benefits such as security: *“Microsoft on its own is investing \$1 billion a year into cyber security, no bank can do that.”* A fintech investor commented, *“The financial services firms that adopt cloud computing faster than their competitors will be the ones that will innovate and digitize faster than their competitors.”*

As the cost of adopting these technologies comes down, and the applications in financial services continue to expand, one director said, *“I struggle to see how boards will be able to keep up with technology advancement. Things are moving*

so fast and it will get more and more difficult to effectively engage in these conversations.”

Access to incumbent systems and data is expanding

Customer data and related insights are some of the most valuable assets for incumbent financial institutions. However, the European Union’s PSD2 directive, the United Kingdom’s Open Banking Initiative, and related developments are forcing financial firms to make more of that data available to third parties.

“The fundamental principle is that the data belongs to the customer and not the financial institution.”

—Participant

A participant noted that widened access to financial institutions’ systems and data, when combined with regulations like GDPR, could have a transformative impact, saying, *“The fundamental principle is that the data belongs to the customer and not the financial institution. Once you buy into that concept this really takes on a life of its own.”* The United Kingdom has taken the lead via its Open Banking Initiative, but a participant noted, *“Europe is going to get there, but there are also twelve countries outside of Europe that have announced intentions to start open banking initiatives—even the United States is contemplating it. We’ll see some fantastic things. We want customers to get the best service possible, whether it’s from fintechs or incumbents.”* Most participants agreed in principle, but one said, *“The big question is who ends up winning? Open banking is really a cheap source of new customers. It’s good for incumbents if they can provide and price their service the right way. The economics will tell you the winners and losers. I think it will start out in the fintechs’ favor but you wonder if over time it will shift back to the incumbents.”*

Climate change is moving up the risk agenda

The global climate is changing faster, and the consequences are worse, than most analysts thought. As one participant said, ***“the impact is already happening in emerging markets.”*** The implications for financial institutions are substantial. Beyond the direct physical effects—flooding, increased frequency and intensity of severe storms—climate change will have economic impacts including asset devaluation, liquidity pressure, and second-order hazards such as supply chain disruption and civil disorder. Additional risks arise from changes in government policy, public sentiment, and technology associated with transitioning to a low-carbon economy.

Climate change is moving up the risk agenda contd.

For insurers, the scope of markets (what is insurable and what is not) will change, and insurers' ability to price risk will be challenged because the future is not going to resemble the past. Participants generally agreed that insurers, which one participant described as "*at the forefront*" of modeling climate risk, have the data and the analytical capabilities to price liabilities effectively, even with longer-lived policies. But they noted that government actions can create systemic distortions in insurance markets, especially when political pressure drives a government to act as the insurer of last resort.

Property and casualty insurers can reprice risk annually, or even withdraw coverage in response to increased climate risk. Life policies, by contrast, have long durations and pricing inaccuracies have major value impact. One participant provided an example, pointing out that as mosquito-borne diseases spread north from the tropics, they change life insurance markets that have been based on decades of risk experience without them.

The asset side of insurers' balance sheets presents its own complexities. Insurers must remain solvent to pay claims decades in the future, and climate change is affecting their long-term investment decisions. One participant noted, "*we have moved our portfolio away from power generation. Our longer duration investments are in grid infrastructure.*"

As influential allocators of risk and capital in the global economy, banks also face significant financial risk from climate change. Credit risks arise as property losses leave borrowers unable to repay their loans. Businesses whose operating models fail to transition to a low carbon economy may be unable to meet their financial obligations. Banks face additional market risks from changes in commodity and energy prices and the impact of severe weather on the macroeconomy, as well as direct operational risks from severe weather events.³⁴

Some regulators and investors suggest that financial institutions will need to dramatically alter their balance sheets to account for climate change and are pressing financial institutions to model the potential financial impact for as many as ten years.³⁵

Customer expectations continue to evolve

“The real challenge is how relevant our products will be to upcoming generations.”

—Director

In addition to technological change, shifting customer preferences have been a major driver of transformation across the industry, and traditional players have, in some ways, struggled to keep up. An executive said, *“As financial institutions we’ve spent the last 10 years not thinking about the customer. Not only that, but we’re making them fill out more forms and charging more fees. We have made it incredibly easy for fintechs and other challengers.”* A participant shared a common complaint, reflected in his own experience: *“My wife and I tried to exchange money when we got to Europe; the fees were outrageous. Financial institutions are letting the TransferWises of the world take this business from us. We can’t keep doing that.”*

Over time, these challenges may become more acute. A director added, *“The real challenge is how relevant our products will be to upcoming generations.”* Below are key areas where customer expectations are changing:

- **Mobile first.** *“Mobile phones came along and fundamentally changed customer behavior. We (fintechs) did not drive the change in behavior, technology did, and banks have been slow to adapt because it was the first time they couldn’t take existing systems and just improve the offering,”* said a fintech executive. Many fintechs have won by taking a mobile-first approach, designing products and services around mobile devices and then working backward to more traditional customer interfaces—web, phone, etc. This approach allows fintechs to reach large segments of the population, limit paperwork and face-to-face interactions, and drive down costs, while remaining agile enough to adapt offerings on the fly. Incumbents, dealing with the operational challenges that come with large global institutions and legacy systems, have often struggled to effectively work from the opposite direction, shifting existing channels onto mobile platforms.
- **Flexible, personalized services.** Customers increasingly expect to obtain financial services at times and in places of their choice and have products specifically tailored to their needs. One fintech executive said, *“Customers are becoming much more demanding. Products and customer experiences need to be much more contextualized.”*
- **Aggregation.** An executive said, *“There are two directions for transformation to go. One is for the customer to use a lot of different services and find a way to manage them all. The other is an aggregator that captures everything because people want things to be easier.”* A fintech executive agreed, saying, *“Fintechs have to pick a point solution to go after, rather than offering full*

“Products and customer experiences need to be much more contextualized.”

—Fintech Executive

service. I don't see consumers wanting fifteen point solutions. They will have to come together." In early 2018, Citi announced a new app in response to a company-sponsored survey that found that 79% of customers preferred to use a single app to manage their finances and 87% wanted a snapshot of their entire financial life in one place.³⁶

"The value of advice is huge, to understand complexity and deal with someone you trust."

—Director

- **Data management and privacy.** Though financial institutions continue to confront reputational issues, they may have a particular advantage in protecting customer data. Once hailed as innovative leaders striving for the greater good, tech giants like Facebook, Amazon, Apple, Netflix, and Google are increasingly being viewed as potential threats to society.³⁷ One report found that 59% of consumers trust banks to safeguard their payments more than they trust alternative payment providers, retailers, or telecommunications companies. Just 12% trust alternative payment providers like Apple, PayPal, and Venmo most.³⁸

However, customer expectations regarding privacy tend to be inconsistent, complicating firms' judgment on acceptable use of data even when legally permissible. Researchers call this phenomenon the "privacy paradox": the "disconnect" between what people say and what their actions indicate when it comes to privacy.³⁹ As with other industries, financial services face an inherent tension related to privacy. Consumers often demand an easy and seamless experience but are more and more reluctant to provide the data necessary to deliver that kind of experience.

Despite observable shifts in customer behavior and a desire for technology-forward services, there are certain segments of financial services where the brand and expertise of traditional global firms will likely provide continued competitive advantages for the foreseeable future. One director said, *"At the end of the value chain, in certain areas such as savings and wealth management solutions, there will always be a need for advice because of complexity and lack of trust in product providers. The value of advice is huge, to understand complexity and deal with someone you trust."*

Incumbents struggle to respond to the pace of change in financial services

As technology, changing customer expectations, and the rapid growth of non-traditional competitors all reshape the financial services landscape, incumbent financial institutions are increasingly recognizing a need to reinvent themselves. Summit participants made their commitment to innovation clear, not just to prevent loss of market share to new entrants, but also to take advantage of new opportunities. As one participant reported, *“Over the last five years there has been a sea change in attitudes and perspectives. A lot of insurers have recognized the need to shift and change, to provide a better customer experience and develop a broader ecosystem of organizations they need to work with.”*

“We are all faced with a wall of technology, applications, platforming, partnerships—it’s a struggle to see the best road map of how to invest and move forward.”

—Director

However, transforming massive institutions is not easy, and may require a time scale that does not align with the pace of change being thrust upon the industry. Leaders at incumbent institutions are determining how to choose a strategy, focus their investments, and adapt operating models to be more agile. A director said, *“We are all faced with a wall of technology, applications, platforming, partnerships—it’s a struggle to see the best road map of how to invest and move forward.”*

This section of *ViewPoints* explores how incumbent financial institutions are transforming themselves to compete in the rapidly changing financial services ecosystem. It explores three major themes:

- **Incumbents must create more agile organizational structures, systems, and cultures**
- **Incumbents are exploring new business models**
- **Regulatory oversight must also adapt**

Incumbents must create more agile organizational structures, systems, and cultures

A summit participant likened the challenge of making a large financial institution nimble enough to respond to a rapidly evolving sector to *“making the dinosaurs run.”* Large financial institutions were not designed to pivot quickly, and in many cases have been executing the same core business models for many years. Acknowledging the challenges of keeping up with a quickly changing financial services landscape, some participants suggested that incumbents can only beat

“It is not a question of making a bet on the future, it is how do I put in place the agile structures to be prepared for what may happen?”

—Participant

fintech startups and tech companies at their own game if they are willing to radically transform their operating models. One participant said, *“As I look at what fintechs are doing, it’s about ease of access, serving the customer where they are. Fundamentally, there is no reason why incumbents can’t do those things. But you need to make organizational changes to the culture and operations. It is possible to be a fast follower.”* At the same time, participants acknowledged the need to run their legacy businesses. *“If incumbents want to take advantage of the opportunities that are there, they need to renovate their business models, but at same time maintain profitability, share price, and use of capital. And they recognize they don’t have all the capabilities to do that—they need to shift their workforce and people, do more joint ventures, outsource more, and bring more partnerships into the organization.”*

Operating models need to adapt

A participant said, *“It is not a question of making a bet on the future, it is how do I put in place the agile structures to be prepared for what may happen?”*

Incumbents are changing the way they think about their organizations, including adopting methods common in tech companies and startups, such as agile project management, DevOps, or “sprints.” Though they cannot embrace the “move fast and break things” culture of the technology sector, incumbents are changing structures so that things get done more quickly:

- **Changing internal structures and processes.** Banks and insurers are experimenting with new organizational models. A participant stated, *“Internal structures no longer support the effort. Traditional structures will change.”* One bank director reported, *“We are reengineering the whole of the bank. There are no business plans, no committees. People work in teams and get put in labs.”* An executive described how their institution had chosen a single function as way to pilot new approaches: *“For new projects we use inceptions, not steering committees. Nothing goes beyond a year.”* According to this executive, *“We now operate in squads; we totally transformed the hierarchy of the organization.”*
- **Creating separate organizations, platforms, or brands.** Some financial institutions have attempted to provide opportunities for experimentation by creating separate entities or distinct brands to launch new products or business models. Several retail banks have launched new digital platforms, including Yolt (ING), Openbank (Santander), Finn (JPMorgan Chase), and Greenhouse, a mobile-first app from Wells Fargo. Goldman Sachs launched its online consumer lending platform, Marcus, at the end of 2016; 18 months later, it had gained 1.5 million customers and made \$3 billion in loans.⁴⁰ Insurers are

“Internal structures no longer support the effort.”

—Participant

“For new projects we use inceptions, not steering committees.”

—Executive

also experimenting: MassMutual launched an internal startup called Haven Life in 2015 to sell term life policies online, while State Farm created an entity called HiRoad in 2017 to experiment with usage-based auto insurance policies.

“I saw us as big tankers years ago. Now ... I see us more as a big tanker with a bunch of jet skis all around it.”

—Participant

Often, organizations intend to migrate new ideas into the main institution or to transition legacy systems onto platforms piloted in separate entities. For example, one large insurer created *“a completely separate enterprise in the [small and medium enterprise] space. We then concluded we couldn’t attract the talent to build the platform, so we are partnering with AI, big data, and asset management firms to build platforms for that product. If it works, it will be designed in such a way as to migrate it to the mother ship and used for the entire business.”* Integrating those innovations into the larger organization remains difficult, however. As one participant said, *“I saw us as big tankers years ago. Now we’re much more fun, but I see us more as a big tanker with a bunch of jet skis all around it.”*

- **Capturing the benefits of scale.** Size can be an obvious barrier to innovation and agility, not just because it is difficult to transform big institutions, but because innovative approaches that start small are unlikely to make a meaningful impact across a large enterprise. As one insurtech leader said, *“The biggest threat to innovation is actually size—most innovative initiatives start small, but they may not be relevant to a large business if they don’t generate enough revenue.”* On the other hand, the size and stability of incumbent institutions and their balance sheets have substantial value and are a competitive advantage against smaller fintechs. As one insurance executive said, *“The core of our business is [our] ability to honor our promises. We have to get resources where they are needed immediately when there is a disaster. That can’t be done with a small company. On the life side, our obligations pay out over 30 to 40 years—so size and stability are paramount.”* Another participant said of large banks, *“Scale attracts. We have millions of users and a scale of investment that cannot be matched by small fintechs.”*

“None of these strategies for transformation will be successful without a rethinking of culture, risk-taking, and innovation.”

—Executive

Culture and talent remain critical

Changing organizational culture goes hand-in-hand with adapting internal structures and processes. An executive asserted, *“None of these strategies for transformation will be successful without a rethinking of culture, risk-taking, and innovation.”* Another agreed: *“Culture is a massive, massive, challenge.”* One participant reported that they had begun to transform their team’s culture by thinking like a startup: *“We literally ask ourselves ‘How would we make these decisions if we were a startup?’ and that’s what we go with. And it’s spreading in*

“The CEO is pressured to deliver the next quarter, and that pressure flows down to middle management. Their KPIs are focused on getting the existing business to perform.”

—Participant

“If you find yourself saying ‘No, we need to protect that margin’ you are heading down the wrong path and you may have already lost.”

—Participant

the firm, it’s contagious.” Participants highlighted the changes needed to foster an innovative and agile culture in large financial institutions:

- **Leaders need to foster a culture of innovation through the organization.** Changing culture requires strong signaling from the top. One participant said, *“You simply need the board to support these things or it won’t happen. Boards are there for long-term thinking.”* Indeed, participants suggested that boards and senior management are actually often more apt to embrace innovation than others in a large, complex organizations. One participant noted that, *“the amount of time the board spends on cool new ideas is disproportionate to their impact, because that’s what gets people excited.”* Another participant agreed that *“the board level is more forward-looking, but then the CEO is pressured to deliver the next quarter, and that pressure flows down to middle management. Their KPIs are focused on getting the existing business to perform. The balance is better at the board level in terms of innovation.”* To overcome a culture of resistance in the organization and drive innovation through this middle layer—sometimes referred to as the “permafrost” or the “treacle”—requires *“people who believe in it, someone running it who has a lot of personal equity built up in the firm, because they will need to spend a lot of it,”* stated an executive.
- **Promoting innovation will require greater risk tolerance.** The risk aversion common in financial institutions is due in part to their regulatory environment, but other factors may play an even stronger role. As one director said, *“Yes, all of us big companies need to be doing more, I get that. But Uber and Airbnb did things in ways that were decidedly not within the existing rule set. If you are a company with a \$50 billion to \$150 billion market cap, you can’t do that stuff. And when those tech companies do get in trouble they barely get punished, but if you screw up as an important financial institution it can really kill you.”* However, as one participant noted, conservative internal policies often exaggerate the impact of regulatory constraints: *“Nobody is willing to take the risk of revoking a policy to try something new, because they fear that if something goes wrong, the regulator will say, ‘Why didn’t you have a policy?’”* And a focus on short-term results can also hinder innovation: *“If you find yourself saying ‘No, we need to protect that margin’ you are heading down the wrong path and you may have already lost.”* To change, financial institutions *“have to be willing to let go of some of the risk intolerance that organizations have built up because of the consequences of the past,”* one participant said.

“Don’t necessarily try to hire these people. Let them go experiment and then buy from them.”

—Participant

- **Firms need to try new ways to integrate different kinds of talent.** Some participants asserted that, despite regulation and deeply-embedded cultures, traditional financial services firms can attract tech-savvy, innovative talent because of the interesting challenges they have to solve, the scale of customers and data they hold, and the software development tools they can provide. But another suggested a different approach: *“Don’t necessarily try to hire these people. Let them go experiment and then buy from them.”* In addition, other skills, including entrepreneurial instincts and the ability to build consensus, are critical to driving innovation. As one participant said, *“We hire people who are hyperconnectors. They know how to get something done in the firm that is outside the traditional hierarchy. You have to learn how to get things done outside the traditional structures of the firm.”*

Deeper systems upgrades and new platforms

“You need to be brave enough to throw the legacy out ... The benefits are extreme if you can pull that off.”

—Participant

Legacy systems are still very much with us: Reuters estimated in 2017 that 43% of US banking systems and 80% of transactions, some \$3 trillion daily, used COBOL, the programming language that was prominent in the 1960s and 1970s.⁴¹ Yet summit participants say they want to escape the legacy trap, and suggested ways out of it:

- **New digital platforms to support new models.** According to one participant, significant increases in functionality may not require completely replacing legacy systems: *“Ten years ago, we would have tried to hard plumb all of this. Now, you can just put a data layer on top.”* However, another participant asserted, *“You need to be brave enough to throw the legacy out. Tech from even five-to-seven years ago does not compare to what’s available today. The benefits are extreme if you can pull that off.”* Though there are significant investments and potential risks involved in major tech transitions, the cost is coming down. One participant said it only cost their institution \$5 million to develop a single view of the client across the entire firm.

“The technology dollars we already spend are so significant, yet not necessarily with the best results. Bolder changes will be needed.”

—Participant

Another participant said, *“Most P&C insurers recognize [that] if they are going to take advantage of insurtechs, and improve customer experience, they need a modern platform. Most are re-platforming claims and process applications.”* He added that, on the life side, there remains the challenge of *“how to deal with legacy. In general, solutions developed through outsourcing have failed. The industry has, for the most part, not migrated legacy life books onto new platforms.”* A participant said gradual technology changes are not the way forward: *“I think we are going through an extremely significant disruption. The technology dollars we already spend are so significant, yet not necessarily with the best results. Bolder changes will be needed.”*

“The better the data platforms, the bigger the opportunity.”

—Participant

- **Better data platforms.** As noted previously, data is proving to be increasingly valuable as the ability to use it for a variety of strategic purposes grows. As one participant said, *“The companies that understand how to get people to give them data for free without charging them anything—they’re really getting the new oil.”* Another summarized, *“The better the data platforms, the bigger the opportunity.”* Yet, getting the data agenda right, including developing the technology capabilities to support better data management, is challenging. It takes a great deal of time and effort to get permissions and ensure effective data sourcing and quality. Firms are experimenting with centralizing data in massive data lakes, hiring more data scientists and improving their data infrastructure. A participant said, *“Building the data platform is where financial institutions will get the most bang for their buck,”* in terms of technology investment, because *“information and data, so much is built off that.”* Another expanded, *“There is so much information that gets built up on the back of a platform, it leads you to business opportunities, client opportunities, and it helps with something banks are really bad at—connecting information.”* Financial institutions have a long way to go to be world-class: *“Yes, you can create data lakes, but knowing how to use data is a real challenge. We’re all in kindergarten compared to the big tech firms. Figuring out how to generate value from data is a key issue.”*
- **Controlling costs.** A fintech executive described the differences in economic models between their operations and those of large incumbents: *“We can charge X amount, which is much less than the traditional providers, and still be profitable and competitive. But if you are an incumbent using legacy systems, that just costs too much. How do you dramatically cut your cost base to make a significant improvement? That’s a very tough question.”*

“You now need to have a full array of places and ways to reach clients. The traditional models are probably going to disappear.”

—Participant

Incumbents are exploring new business models

A summit participant predicted, *“There will be fairly significant new models, but it will take longer than many people expect.”* Under pressure to mirror or compete with innovative offerings emerging outside of the traditional financial services sector, large financial institutions are adopting new technologies to better use their data and serve customers in new ways. As a result, another participant predicted, *“There will be a wider variety of business models than we have seen historically.”* Some are considering the balance between a traditional pull model for financial services, and a push model, whereby financial services are offered where and when customers want them. Another said, *“You now need to have a full array of places and ways to reach clients. The traditional models are probably going to disappear. Some will still be high-touch, but some will be purely digital.”*

Banks may face pricing pressure from technology platform companies. One executive suggested that financial institutions will need to identify new sources of revenue: *“I see lots of growth opportunities, but pricing will change. A big part of our business will become less volume-sensitive because the big platform companies can do it virtually for free. Pricing will matter, models will fundamentally shift.”*

One strategy for developing new revenue streams is to expand into new geographies and untapped consumer segments, often those with lower levels of wealth and income. As technology reduces costs, previously unbanked and uninsured populations are becoming viable sources of income for financial institutions. *See section 3 of this document.*

Two other aspects of business model change emerged as particularly important during summit discussions: expanding use of partnerships and changing relationships with customers.

“A lot of this isn’t about competing, it’s symbiotic. It often turns out that it is better for all sides when we partner rather than own or compete.”

—Director

Expanding use of partnerships and acquisitions

While incumbent financial institutions are building more agile organizational structures and cultures along with new technology platforms, they also recognize the need to bring in capabilities from outside their organizations. In some cases, this might mean buying startups or technology platforms. One bank director said, *“Some things will be developed inside banks, but I also think we cannot be afraid of buying things from the outside.”* As one participant pointed out, *“Allstate bought Esurance,”* which sells auto and home policies direct to consumers online. *“They tried to build it themselves internally, but they couldn’t do it. So, they spent a lot of money on Esurance and it has been very profitable for them.”*

However, while acquisitions remain an important aspect of innovation strategy, participants described a growing emphasis on partnerships among financial institutions and between financial institutions and fintech companies. One director noted that *“A lot of this isn’t about competing, it’s symbiotic. It often turns out that it is better for all sides when we partner rather than own or compete.”* A bank executive agreed: *“A lot of companies are realizing that can be a very lucrative way to go.”*

Partnering with fintechs and insurtechs

As noted in the previous section, many fintech companies have a narrow business scope and are happy to partner rather than compete with large financial institutions. Sometimes the lines between partnership and competition are blurred, e.g. with white label service, or *“powered by,”* co-branded approaches. A recent survey of large insurers found that over 95% were looking for ways to work

with insurtechs; the most-cited benefits were an improved ability to enhance the customer experience (77%) and faster time to market (60%).⁴² One insurtech executive noted that, *“There’s been a massive change over the last few years. When we started a few years ago, insurers would say, ‘We’ll do it ourselves.’ Now people are more flexible with outsourcing components to be done quicker.”*

One insurtech participant described a platform to *“enable insurers to design, develop, and distribute products very quickly. We allow insurers to look at products in an agile way—pick up smaller ideas, try them out and kill them if they don’t work.”* Some incumbents have found it easier and more cost-effective to partner with fintechs than to build their own tech capabilities, and some large retailers have determined that partnering is more effective than developing their own financial services offerings.

Despite increasing enthusiasm for partnerships, managing them can be difficult. One fintech leader said, *“As fintechs, it’s very frustrating to work with banks. We want to work with you, we need to work with you: you have great brands, the lowest cost of capital, everything we need. But in every bank there are like four warring groups and it is very difficult to work with them.”*

One executive of a larger fintech noted that issues of scale had hindered their efforts to work with larger players, which are often unwilling to invest in initiatives that may not have a meaningful financial impact. *“We often partner with smaller companies in emerging markets. We can make a difference for them and they want to work with us. If we go to larger institutions, they are not flexible because we won’t make a difference to their P&L or balance sheet.”* As a result, this participant continued, *“Global groups are more interested in working with us in small markets they have just entered.”*

Partnerships among incumbents

In addition to partnering with startups, large incumbents have joined forces with each other to compete with fintechs. Participants cited Zelle, a peer-to-peer payment application launched in June 2017 by some of the largest US banks to compete with Venmo. A year later, a number of other banks had signed on, and Zelle had become the most widely used peer-to-peer payment app in the United States.⁴³

Distributed ledger technology, or blockchain, has also been a fruitful area for collaboration. In 2015, nine large investment banks launched blockchain startup R3 to develop technology for processing transactions. By May 2018, the consortium had grown to some 70 institutions.⁴⁴ Similarly, a consortium of incumbent insurers founded the Blockchain Insurance Industry Initiative (B3i) in late 2016 to explore the use of distributed ledger technology within the insurance

industry. By mid-2018, B3i had launched its first product and had incorporated as an independent public company, with the founding insurers as its major shareholders.⁴⁵

Changing relationships with customers

“We have to ask, ‘Where are we really world-class?’ and determine how best to leverage those things.”

—Insurance
Executive

Many participants agreed that innovation should be focused on gaining a deeper understanding of customer needs and using technology to offer more tailored service in response. Yet, in both banking and insurance, technology can threaten direct access to some customers. As one bank executive said, *“We lost the customer interface over the last 10 years. You could argue whether we ever even had it. But we’ve spent the last 10 years not thinking about the customer. We made this incredibly easy for fintechs. I think banks are starting to realize that now and coming around. I’m actually optimistic they will get there when it comes to client experience.”*

One fintech executive agreed, to a point: *“As senior bankers, I think it is in your hands to do something about how you treat your customers—then maybe you can really get some trust built up ... maybe.”* Participants identified the following factors influencing incumbents’ future relationships with customers:

- **Distinguishing utility functions from customer relationships.** In banking, according to one participant: *“There are two possible futures: One, utility, where we are the pipes and the balance sheet, and other people market to customers; and two, we succeed in capturing value in the customer relationship, serve more of their needs, are able to provide contextualized offers and tailored service.”* One insurance executive suggested there might be a similar future for that industry: *“What’s sacrosanct is the engine of risk and capital. That will stay—but distribution will change.”* But another said, *“It’s not all one or the other. We have to ask, ‘Where are we really world-class?’ and determine how best to leverage those things.”*
- **Leveraging digital platforms.** One element of capturing and holding the customer relationship, especially with younger consumers, is to move interaction to digital channels, particularly mobile devices. As one fintech executive said, *“Make your products mobile. I don’t mean transfer your website into a sort of mobile app. I mean mobile-only, mobile-intended, mobile-focused.”* The same participant pointed to the success of JPMorgan, which *“built a brand new digital bank.”* By the second quarter of 2018, its digital-first consumer bank had around 48 million digital users, including nearly 32 million mobile users.⁴⁶ Large incumbents have huge customer bases who use their online and mobile offerings regularly, enabling them to offer a wide array of products and services to customers, at times via third party providers.

“Make your products mobile. I don’t mean transfer your website into a sort of mobile app. I mean mobile-only, mobile-intended, mobile-focused.”

—Fintech Executive

Some insurers, for example, are bundling risk prevention and mitigation services with their protection products. Financial institutions are considering how they can use their platforms to generate revenue in new ways, as another participant said, *“There will be creative models: people who ride on top of the platform providing new ways to connect with customers, attracting more consumer wallet spend, apps running on top of the financial services offering.”* Some participants expect these models could mean that *“the lines between financial services sectors—banking, insurance, and asset management—will be blurred.”*

“... We want to have all that customer data, but you don’t have access to it. It’s with the intermediaries.”

—Participant

- **Changing relationships with insurance intermediaries.** The challenge for insurers has long been that their products are often sold through intermediaries. As a result, much of the client data lies with intermediaries, and direct customer relationships have always been attenuated. One participant noted that, *“We are all innovating, recognizing that client data is the gold nugget, and we want to have all that customer data, but you don’t have access to it. It’s with the intermediaries.”* Digitization and AI could streamline insurance distribution and help insurers gain access to end customers. As one insurance director wondered, *“What’s wrong with leapfrogging intermediaries with products? Will product innovation allow us to leapfrog intermediaries?”*

Several factors make doing so difficult: the power of entrenched intermediaries; the complexity of many insurance products; the need to avoid conduct problems and regulatory interventions; and, in some customer segments, greater *“trust in people than technology.”* According to one participant, *“in commercial lines, intermediaries have had a stranglehold. If you try to go directly to customers, the impact on revenues would be huge. You would be blackballed, and no one would use you in RFPs going forward.”* One participant asserted that *“to go online and digital, the insurance product has to be very simple and almost commoditized—like hotel rooms, toothpaste, airline tickets.”* Others suggested that insurers would need to maintain multiple distribution strategies—digital for simpler products and human for more complex products. And indeed, insurance startups and incumbents have focused on simpler products for online distribution. For example, a number of startups and incumbents offer an online process for rapidly purchasing term life policies, but do not offer whole life insurance online because, in the words of one insurer, *“Permanent life insurance can be a complex product, which is why people often consult a trusted financial professional when considering it.”*⁴⁷

- **Differentiating between wholesale, commercial, and retail customers.**

Though customer relationships are being disrupted in every line of business, many conversations revolve around consumer and retail. *“It’s easy to talk about retail but we’ve been avoiding wholesale,”* said a director. Some incumbents feel they operate from a position of relative strength in the wholesale and commercial spaces. One director noted, *“On the wholesale side we’ve found the data is far easier to handle. Maybe that’s why it hasn’t been skimmed off by the fintechs yet—we have all the data and in that space we know how to play with it.”* Another participant observed: *“The wholesale business is about building relationships, something the fintechs struggle with. We are more comfortable in that area.”*

Regulatory oversight must also adapt

“Regulators will never be at the forefront of innovation, but we are continually asking how close-following we can be.”

—Regulator

“Innovation applies to us as well. Regulators will never be at the forefront of innovation, but we are continually asking how close-following we can be,” said a regulator. Just as new technologies, new business models, and new players in financial services are altering the competitive landscape, they are also changing how regulators operate. Unless regulation and supervision evolve, incumbents will remain at a disadvantage to agile startups unencumbered by the same degree of regulatory scrutiny. While innovations can bring considerable benefits—to consumers, individual financial institutions, and the financial system as a whole—they also pose new risks. Regulators are focused on encouraging innovation that serves the interests of customers without creating unacceptable prudential risks. A regulator said, *“We are trying to foster and encourage innovation in the interest of consumers. Most of the companies that are innovating are trying to do something in the interest of consumers—whether it’s efficiency or a new product or a new method of delivery.”*

The rapid pace of change occurring in the industry will continue to pose difficulties for regulators. Participants highlighted areas where regulatory oversight is grappling with the changing landscape:

- **Encouraging innovation.** Many governments are working to find better ways to offer fintech firms a legal framework capable of supporting innovation while also protecting consumers. Several jurisdictions have launched or announced innovation hubs or regulatory ‘sandboxes’ during the last few years, including the United Kingdom’s Financial Conduct Authority, France’s *autorité de contrôle prudentiel et de résolution* (ACPR), the Hong Kong Monetary Authority, the Monetary Authority of Singapore, and regulators in Australia, Indonesia, Malaysia, India, Denmark, and Canada. Sandboxes allow for testing

“Bluntly, there is a bit of a hype curve among regulators—everybody says they love innovation, but then say, ‘I don’t like this bit, I don’t like that bit as well.’”

—Regulator

“We’ve seen loss of service and loss of data, but what we haven’t seen is loss of data integrity. If we see that, it’s really scary.”

—Regulator

of new products and services—from both startups and large incumbents—in a limited, controlled environment.⁴⁸

A recent report found that the United States lags its counterparts in this regard, stating, “US efforts to foster innovation are fragmented, characterized by a patchwork of state and federal initiatives that lack a common organizing strategy, exposing markets to regulatory uncertainty and consumers to potentially harmful products and services.”⁴⁹ This may be changing with the launch of the US Consumer Finance Protection Bureau’s regulatory sandbox and the Securities and Exchange Commission’s fintech hub in the second half of 2018.⁵⁰ Yet, despite evidence of enthusiasm for innovation among regulators, one acknowledged, *“Bluntly, there is a bit of a hype curve among regulators—everybody says they love innovation, but then say, ‘I don’t like this bit, I don’t like that bit as well.’”*

- **Monitoring data use.** As new technology is increasingly being used by both fintechs and incumbents to take advantage of vast data collections, one regulator shared concerns about the risks of things moving too quickly: *“We’ve seen loss of service and loss of data, but what we haven’t seen is loss of data integrity. If we see that, it’s really scary.”* As more companies move data to the cloud, regulators are working to assess the technology. One said, *“Short version: we are open to it. There are ways of using cloud securely. But things to think about include concentration risk, new single points of failure. The question for boards is, ‘Do you understand this enough to control it?’”*

Firms are also increasingly turning to data to “nudge” customers, offering contextualized advice or products. A regulator said, *“(Nudging) doesn’t make us nervous, because to some extent the customers are actually getting what they want and they’re not getting submerged in things they don’t want or need.”* But the regulator continued, *“What makes us nervous is the by-product of that, the treatment of vulnerable customers. For instance, if they know a customer is time-poor, they can price offers in a way that takes advantage of that.”*

- **Understanding how artificial intelligence is used.** AI is enabling financial institutions to use purely digital channels to offer products that have long relied on human interactions, e.g. by automating advice and help channels. Firms are using algorithms for an increasing range of purposes. This is raising regulatory questions: How can regulators be sure, for example, that robo-advisors are giving customers appropriate advice, that pricing algorithms won’t price-gouge customers, or that trading algorithms don’t wind up colluding with each other?⁵¹ A regulator said, *“It’s about understanding what the outcomes*

are. Every time an advisor sits down with a wealthy client, there is an algorithm running in their heads. So, we take the stance that we won't look at the algorithms, we look at the outcomes." Another regulator noted that for insurers there are ways "to use big data in positive ways, tailoring risk, more accurate pricing for customers, improvements in how you deliver service to them, making the process of buying and switching simpler. But we've been clear: if you use that in a way to work out how to price gouge—which is possible now, then we don't think that's appropriate."

- **Improving AML and KYC.** A regulator said, *"We have worked with regulators and law enforcement around the world about applying tech to the AML space more efficiently. As we get smarter, we may be able to put a dent in the bill and use the technology to catch bad guys."*

★★★

The financial services ecosystem is beginning to look different than it did even a few years ago, and those changes will continue, with an evolving mix of competitors in different businesses; more collaboration and partnerships across incumbents, tech companies, and specialized fintechs; and fewer large institutions trying to be all things to all customers or to control the entire value chain.

Financial inclusion: a commercial opportunity

There's a \$200 billion revenue opportunity, if banks would get serious about this.

—Summit participant

New business models make it feasible to bring financial services to customers previously seen as commercially unreachable. In particular, the widespread adoption of smartphones has opened up new distribution channels, bringing hundreds of millions of previously unbanked and uninsured into the formal financial system. Advances in technology have significantly lowered the cost to reach these customers, meaning that financial inclusion can be a source of growth for both traditional and new players.

The relationship of technology to financial inclusion, however, is a complicated one. While technology empowers the digitally savvy, mobile-only models pose challenges to segments of the population more comfortable visiting branches, dialing call centers, and paying with cash. A recent video clip,⁵² for example, shows an elderly Chinese man becoming distraught when unable to use cash to pay for food at a store that only accepts mobile payments. The risk of financial exclusion and, in many settings, the legal or social expectation that financial services firms serve all population segments remain politically sensitive issues.

At the Financial Services Leadership Summit, participants discussed the commercial opportunity in financial inclusion; emerging business models to reach the underserved; alternative approaches for financial institutions to achieve scale in this space; the key barriers to address; and societal expectations for global financial institutions.

Sizing the commercial opportunity

While estimates of the number of financially underserved vary, the world has seen significant progress in widening the delivery of financial services. A summit participant explained, *“In 2001, there were an estimated 2.5 to 3 billion people excluded from the financial system—meaning, they did not have a bank account. Now, the estimate is 1 to 1.5 billion excluded. That is in large part due to the progress in places like China, India, and Brazil, where there are the largest volumes of excluded.”*

“... One billion people have bank accounts, but don’t use them. So, it’s a good news/bad news situation.”

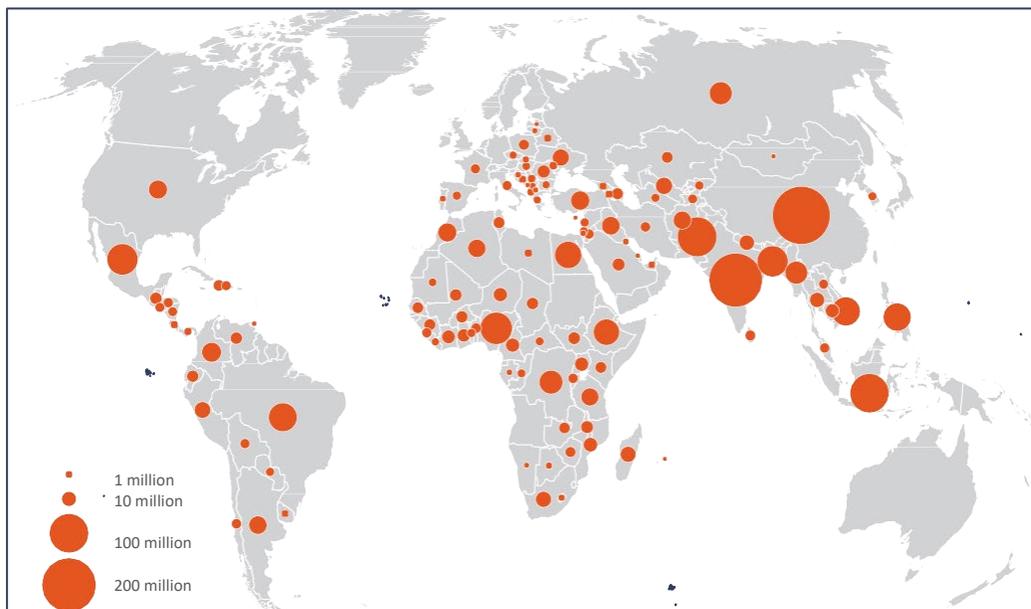
—Participant

Nonetheless, large populations remain unbanked. A recent survey found that 37% of adults in developing economies have no bank account, compared with just 6% in high-income economies.⁵³ The survey also found that 56% of all unbanked adults are women. Just focusing on the unbanked, however, may understate the scale of the challenge as well as the commercial opportunity. A participant noted, *“According to the World Bank, one billion people have bank accounts, but don’t use them. So, it’s a good news/bad news situation: the numbers suggest more progress than may really have been the case.”*

According to a recent report from the International Finance Corporation and Stanford University, among all adults worldwide, “57 percent have basic accounts but do not have access to diversified investment and savings options, low-cost payments systems, core household and business insurance, or credit.”⁵⁴ What’s more, financial insecurity has spread “with growing income inequalities in developed economies too, and now is an issue for nearly half the American population.”⁵⁵ In advanced economies, many young people experience high financial anxiety in contrast with their parents who came of age when “[f]ull employment put money in the pockets of managers and factory workers alike.”⁵⁶ Millennials struggle to find steady and well-paying jobs, buy a home, and accumulate long-term savings. Solving these issues could represent a new source of revenue and growth.

While the developed world has sizeable populations of financially vulnerable and/or underserved populations, the most attractive commercial opportunities have historically been in developing countries, especially those with large populations and strong economic growth prospects. The map below shows the distribution of individuals without bank accounts. A disproportionate number of them live in China, India, Indonesia, Pakistan, Nigeria, Brazil, Mexico, and Bangladesh.

Adults without a bank account, 2017



Source: Global Findex database

Note: Data are not displayed for economies where the share of adults without an account is 5% or less.⁵⁷

“There is a \$200 billion market opportunity, but most people think about individuals. In fact, only about \$25 billion is individual; \$175 billion is micro, small, and medium enterprise [MSME] lending.”

—Participant

Determining the commercial opportunity in serving these individuals is part art, part science. Morgan Stanley recently concluded that by “targeting the unbanked population, [firms in Europe] could garner between €13 billion and €27 billion over the next decade, providing a 2% to 5% boost to banks’ top lines.”⁵⁸

Individual customers may represent only a tiny slice of the potential market. A participant said, *“There is a \$200 billion market opportunity, but most people think about individuals. In fact, only about \$25 billion is individual; \$175 billion is micro, small, and medium enterprise [MSME] lending. There are 200 to 300 million enterprises without credit which represent viable credit. Even in China, where they’ve made so much progress on individual financial inclusion, they haven’t quite solved for MSMEs. There is not as much data as there is about consumers.”*

Emerging business models in financial inclusion

While the sheer number of underserved individuals and MSMEs is huge, traditional players in financial services have thus far focused elsewhere because these segments were perceived to be unprofitable or risky. Rapid advances in technology, however, have led to new business models in financial inclusion that may warrant reconsidering these assumptions.

Technological innovations reduce costs and increase data availability

“Alternative credit models are now possible. The platform providers in China are supplying that.”

—Participant

Acquiring and servicing low-income customers in a prudent and cost-effective way has always been challenging. Why have things changed so rapidly? The following four factors have been critical in altering the calculus:

- **Digital infrastructure.** Morgan Stanley research indicates that digital innovations—digital bank branches, real-time payments, and the like—could reduce net expenses for global banks by up to \$60 billion (3% of total expenses) by 2022.⁵⁹ Smartphone proliferation and fast internet access have enabled banks and insurers to launch digital-only products and services, slashing the number of costly branches and field agents.
- **Identity.** Advances in digital identity combined with supportive regulatory environments provide a pathway to reach the underserved and fulfill know-your-customer (KYC) requirements. A participant said, *“You need a reliable way to confirm customers are who they say they are. You see the digital identity project in India, for example, where 1 billion people have been biometrically verified.”*
- **Data.** The availability of data from a growing universe of sources allows firms to explore alternative data sets to try to understand the wants, needs, and behaviors of the underserved. A participant said, *“Alternative credit models are now possible. The platform providers in China are supplying that. Alibaba/Ant Financial and WeChat/WeBank have large loan books using alternative credit scoring with very low loss rates—lower than the major Chinese banks.”* A fintech executive noted, *“80 percent of the world uses a prepaid mobile plan. That automatically means they are viewed as uncreditworthy, because the mobile operators are saying, ‘You better get your cash up front.’ But it is an information problem. They need the ability to demonstrate that they have an identity and can get a credit rating. Then, we can go to the banks and say, ‘Here are tens of millions of people who are highly credit worthy.’”*
- **Online transactions.** A participant said that, as small businesses move to digital payments, financial services can begin to serve them: *“If you can see all of the flows digitally, it can work, but there are many small shops that are not yet digital. That’s the next frontier. Merchant data moving through platforms like Alipay and WeChat Pay will build that history, that picture.”* Another participant commented, *“You need merchants connected to the banking system—although we are now seeing blockchain initiatives popping up to circumvent the banking system.”* In markets where mobile

“... There are many small shops that are not yet digital. That’s the next frontier.”

—Participant

“... Once you have the app, and local operations, you can look at the underserved in an area more easily.”

—Participant

payments are becoming ubiquitous, more data is becoming available. Moving from cash to electronic platforms at the point of sale, for example, creates digital trails that enhance understanding of merchant cash flows, which in turn enables further product development to meet their needs.

Technology changes the customer offer

Technology is not only reducing the cost of serving individuals and MSMEs but also changing the nature of financial service offers.

Mobile first

Fintech pioneers leveraged mobile devices and connectivity with telcos to reach millions of customers quickly and profitably. A participant remarked, *“We were inspired by Safaricom in Kenya in 2007-8. That was the start of mobile banking for the underserved. We are now in 15 markets and have sold to 30 million people.”* A participant observed, *“You can start out focused on the affluent in a developing market. Then, once you have the app, and local operations, you can look at the underserved in an area more easily.”*

Increased customer engagement

Increasing the number of customer transactions becomes critical when the average transaction size is very small. In the world of big data, greater engagement also leads to better understanding of behavior, which then drives further product and services development. An executive explained, *“We are building services on top of our insurance products to build a loyal customer base. How do you do that in insurance? You want the customer to benefit from the product continuously, as opposed to how insurance usually works, where someone buys a life insurance policy and then never interacts with the company. We are building a set of products, like health insurance that includes health services that you can use every month.”*

Coordination with regulators

Supportive regulatory environments are critical to successfully reaching the underserved. Some financial services providers may favor pursuing opportunities in emerging markets, where they don't have to contend with the strictures of more established markets. A participant observed, *“Regulatory regimes in emerging markets tend to be less stringent, more open.”* Developing effective solutions for the underserved may also require actively engaging with regulators. An executive suggested, *“We should start with the problem we are trying to solve, as opposed to the product—e.g., income volatility or food insecurity. So, we sat down with regulators and figured out how to deliver these things in a compliant way. We spend as much time innovating in that way as in innovating the actual products.”*

“Regulatory regimes in emerging markets tend to be less stringent, more open.”

—Participant

Competitive pricing

Passing along cost savings to customers is a fundamental aspect of many of these approaches. For example, BIMA offers insurance policies to millions across Africa, Asia, and Latin America for as little as \$0.04 a day.⁶⁰ Acorns, a US-based micro-investing pioneer with 3.3 million customers and financial backing from BlackRock, charges \$1 a month to customers with balances under \$5,000;⁶¹ and digibank, the Indian digital-only bank owned by DBS, offers Indian savers 7% interest rates.⁶²

Approaches to achieve scale in financial inclusion

The commercial opportunities available in financial inclusion are starting to attract the attention of a far more diverse range of institutions beyond nonprofits, microfinance institutions, and development agencies. A participant observed, *“Venture capital and private equity are coming in in a big way.”* How can large financial services firms enter this space and achieve sufficient scale to move the needle? Participants explored a number of approaches, which may be complementary:

- **Alternative business models.** Traditional players have been watching the fintechs and are now employing similar mobile-led strategies to quickly reach the underserved. Standard Chartered recently launched digital-only banks in Côte d’Ivoire, India, and South Korea. In a recent interview, Standard Chartered CEO Bill Winters noted the substantial cost savings of its digital push: *“We onboarded in the first part of this year 60,000 retail clients with zero human touch. So the marginal cost of this is zero.”*⁶³ Societe Generale and DBS have adopted similar approaches in Africa and Asia, respectively. Interestingly, JPMorgan Chase has not only launched a digital-only bank in the United States, called Finn, but also announced plans to open 400 new branches.⁶⁴ While a branch build-out strategy seems to fly in the face of industry trends, JPMorgan Chase’s head of corporate responsibility, Peter Scher, explained that adding branches *“is part of a very self-supportive circle that leads to more economic growth.”*⁶⁵
- **Partnerships.** M-PESA and BIMA have relied upon partnerships to reach potential customers and achieve tremendous scale. Financial services firms are now partnering with entities ranging from banks to microfinance institutions, fintechs, and telecom companies. An executive commented, *“We have seen some successful partnerships between the big banks and fintechs. They are using alternative credit scoring for thin- or zero-file customers who may have a phone or evidence of paying bills. Some are*

setting up kiosks or payments applications working with microfinance banks. There are money-center banks involved in this, like Citi, BBVA, and Societe Generale.”

“There may be opportunities for large institutions to invest in companies that are doing this as opposed to trying to build it in-house.”

—Participant

- **Funding fintechs.** Global banks and insurers have been providing capital to support fintechs. A participant remarked, *“There may be opportunities for large institutions to invest in companies that are doing this as opposed to trying to build it in-house.”* In December 2017, Allianz X, the digital investment unit of the Allianz Group, became the largest strategic shareholder in BIMA, following a \$96.6 million investment in the company.⁶⁶ Goldman Sachs has provided a \$137 million credit line to Brazilian unicorn Nubank—permitting both businesses to participate in Brazil’s digital consumer banking space.⁶⁷
- **Consortia.** While traditional players within financial services compete vigorously for deals, customers, and league table rankings, there is also a place for collaboration and coordination around shared challenges and growing markets. Payment exchanges, clearing houses, combating financial crime, and now financial inclusion are all examples where players have come together. A participant explained, *“Blue Marble Microinsurance was started with the backing of nine large insurers. They provide capital, talent, teams that know how to operate in local markets, and knowledge and experience. It has resulted in a benefit to the reputation of insurance in these markets.”*

Barriers to commercializing financial inclusion

“There is a personal view I may have about doing this; then there is the perspective I have as a board member of an entity under regulatory scrutiny.”

—Participant

While technology may present promising opportunities for global financial institutions to pursue underserved customers, several obstacles must still be addressed:

- **Identification.** Verifying the identity of the underserved particularly in emerging markets can block financial institutions’ ability to expand service even if they determine the risks are manageable. A participant observed, *“There is a personal view I may have about doing this; then there is the perspective I have as a board member of an entity under regulatory scrutiny. With KYC requirements, for example, you need a permanent address. We are obliged; we have no choice.”* Even in markets where the regulatory environment is supportive of alternative approaches to verify identity, global financial institutions are still concerned about the stance of home-country regulators. A participant commented, *“European regulators are not flexible or interested in debating these requirements.”*

- **Building trust among customers in emerging markets.** In developed markets, customers generally trust global financial institutions to protect their confidential information. In emerging markets, however, more work is required, not only to assure customers that their data will be protected but to convince them that sharing data results in economic benefit. An executive said, *“Millennials in China would never say banks are the most trusted with their data. Nonbank tech providers offer customers fantastic value in return for their data by offering personalized recommendations to get a better deal. My bank does none of that.”*
- **Exposure to new risks.** There are well-documented reasons why financial services providers have shied away from underserved communities. Difficulties in verifying income and increased vulnerability to economic shocks have, in many cases, led to losses. For some populations, customers’ lack of financial literacy may raise questions about the suitability of some financial products, increasing the risk of real or perceived mis-selling or misconduct. As the underserved get more access to financial products and services, new risks are emerging. A participant explained, *“In Kenya, some mobile companies were offering very small no-doc loans for short-term financing, but what they saw was a massive uptick in gambling by teenagers using those loans, all on their phones. Now, some of them are blacklisted by the credit bureau over \$20 loans.”*
- **Barriers to foreign entry.** While the revenue pools in markets like China are highly attractive, they may not be accessible to foreign firms. Being successful may require navigating complicated regulatory environments and out-competing local players—such as Ant Financial and Tencent in China—who enjoy substantial first-mover and other advantages. Even in India, where digital identity has provided a clearer pathway to realizing commercial opportunities with the underserved, the Supreme Court recently decided that banks and telecoms cannot use “e-KYC”, where a customer’s identity is determined without a branch or office visit.⁶⁸ The ruling is a potential blow to foreign players who want to reach the underserved in a country with 1.3 billion people without establishing a significant physical presence.

Societal expectations for global financial institutions

Discussion about financial inclusion often takes place as part of a broader debate about society’s expectations for its most significant firms. While technology continues to bring more people into the financial system globally,

“There is also an opportunity for reverse innovation, whereby approaches adopted first in emerging markets could be valuable in developed markets.”

—Participant

in some markets it may contribute to increasing financial exclusion. As branches close, towns can lose community anchors and less tech-savvy populations can become financially more vulnerable. The connection between digitalization, branch closures, and financial exclusion is becoming a tricky political issue. A regulator acknowledged, *“It’s a debate we haven’t gotten to the bottom of. These are privately owned companies. They have shareholders who they must answer to. Right now, it’s a situation where there is no right answer, only the least-wrong answers.”*

Some participants acknowledged the broader societal obligation of firms, particularly in their home markets. A participant said, *“Banks can approach financial inclusion in a different way, by investing in the communities to create a rising tide that lifts all boats—things like keeping branches open. We do have a responsibility.”* Yet few expect the drive toward digitalization and branch closures to end. One participant explained a potential resolution: *“There is also an opportunity for reverse innovation, whereby approaches adopted first in emerging markets could be valuable in developed markets. For example, why do we have people lining up for hours at a Western Union to pay a high fee? It doesn’t make sense.”* The biggest commercial opportunity for some global firms may therefore be to explore models developed elsewhere to reach vulnerable populations in home markets. A regulator reflected, *“I am encouraged by this discussion. As a regulator in a developed market, I hear all the time about concerns about exclusion as financial services becomes more digital and branches close. Yet, the same trends are driving inclusion elsewhere.”*

Appendix A: Summit Participants

In 2018, Tapestry and EY hosted nine BGLN and IGLN meetings, including the third Financial Services Leadership Summit. In preparation for the summit, Tapestry and EY had more than 75 conversations with directors, executives, regulators, supervisors, policymakers, and other thought leaders. Insights from these discussions helped to shape the summit agenda and inform the enclosed *ViewPoints* documents.

The following individuals participated in discussions for the 2018 Financial Services Leadership Summit:

Directors

- Clive Adamson, Risk and Capital Committee Chair, Prudential Assurance Company
- Jeremy Anderson, Audit Committee Chair, UBS AG
- Win Bischoff, Chair of the Board, JPMorgan Securities
- Norman Blackwell, Chair of the Board and Nomination & Governance Committee Chair, Lloyds Banking Group
- Jonathan Bloomer, Chair of the Board, Morgan Stanley International
- Jan Carendi, Senior Advisor to the CEO, Solera Holdings
- Bill Connelly, Chair of the Supervisory Board, Aegon and Non-Executive Director, Société Générale
- Jim Coyle, Risk Committee Chair, HSBC Bank plc
- Mary Francis, Reputation Committee Chair, Barclays
- Ann Godbehere, Compensation Committee Chair, UBS AG
- Mark Gregory, Investment Committee Chair, Direct Line
- Byron Grote, Non-Executive Director, Standard Chartered
- Tobias Guldemann, Audit Committee Chair, Commerzbank
- Paul Hanratty, Non-Executive Director, Sanlam
- Mike Hawker, Risk Committee Chair, Aviva plc and Remuneration Committee Chair and Risk Committee Chair, Macquarie Group
- Petri Hofste, Non-Executive Director, Rabobank
- Phil Kenworthy, Non-Executive Director, ClearBank
- Monica Mächler, Non-Executive Director, Zurich
- Trevor Manuel, Chair of the Board, Old Mutual Group
- Roger Marshall, Audit Committee Chair, Old Mutual
- Paul Matthews, Non-Executive Director, Quilter

- Pauline van der Meer Mohr, Remuneration Committee Chair, HSBC
- John Misselbrook, Chair of the Board, Northern Trust Global Services
- Scott Moeller, Risk Committee Chair, JPMorgan Securities
- Kevin Parry, Audit Committee Chair, Nationwide Building Society and Senior Independent Director, Standard Life Aberdeen
- Sabrina Pucci, Non-Executive Director, Generali
- Nathalie Rachou, Risk Committee Chair, Société Générale
- Bruce Richards, Chair of the Board, Credit Suisse USA
- Isabelle Romy, Non-Executive Director, UBS AG
- Mark Seligman, Senior Independent Director, RBS
- Doug M. Steenland, Chair of the Board, AIG
- Gregor Stewart, Audit Committee Chair, Direct Line
- Jon Symonds, Deputy Group Chair, Senior Independent Non-Executive Director, and Audit Committee Chair, HSBC
- John Tattersall, Chair of the Board, UBS Limited
- Rolf Tolle, Risk and Capital Committee Chair, QBE
- Jasmine Whitbread, Brand, Values and Conduct Chair, Standard Chartered

Executives

- Gustaf Agartson, CEO, BIMA
- Giles Andrews, Co-Founder and Chair, Zopa
- Domingo Armengol, Corporate Secretary and Secretary of the Board, BBVA
- Deborah Drake, Vice President, Investing in Inclusive Finance, ACCION
- Stuart Gregory, Head of Business, Transferwise
- Jens Hartwig, CPO & Co-Founder, Laka
- Sue Kean, Chief Risk Officer, Old Mutual plc
- Joan Lamm-Tennant, CEO and Founder, Blue Marble Micro Ltd and Director, Hamilton Insurance Group
- Stuart Lewis, Chief Risk Officer, Deutsche Bank
- Charles McManus, CEO and Executive Director, ClearBank
- Steven Mendel, CEO and Co-Founder, Bought by Many
- Lewis O'Donald, Chief Risk Officer, Nomura
- Susan Revell, Deputy Chair and General Counsel, EMEA, BNY Mellon
- Nick Silitch, Senior Vice President and Chief Risk Officer, Prudential Financial
- Alan Smith, Global Head, Risk Strategy and Senior Executive Officer of Group Risk, HSBC

- Matt Wardle, Co-founder and Chief Technology Officer, KASKO
- Lara Warner, Chief Compliance and Regulatory Affairs Officer, Credit Suisse
- Iain Wright, Chief Risk Officer, Quilter

Regulators

- Jan Blöchliger, Head, Banks Division, FINMA
- Jonathan Davidson, Executive Director of Supervision, Retail & Authorizations, UK Financial Conduct Authority
- Fausto Parente, Executive Director, European Insurance and Occupational Pensions Authority (EIOPA)
- David Rule, Executive Director, Insurance Division, Prudential Regulation Authority
- Elisabeth Stheeman, External Member, Financial Policy Committee, Bank of England
- John Sutherland, Senior Advisor, UK Financial Conduct Authority
- Chris Woolard, Executive Director, Strategy and Competition, UK Financial Conduct Authority

Other Participants

- Tom Burke, Chair, E3G
- Kurt Cripps, Managing Director and Global Head of Weather Risk, Aon Benfield
- Andrew Dapre, EMEA Lead, Financial Services, Azure Engineering, Microsoft

- Philip Stephens, Director, Editorial Board and Chief Political Commentator, Financial Times
- Ron Suber, President Emeritus and Senior Advisor, Prosper Marketplace

EY

- Jan Bellens, Global Deputy Sector Leader, Banking & Capital Markets
- Anthony Caterino, Vice Chair and Regional Managing Partner, Americas Financial Services Office
- Shaun Crawford, Global Vice Chair of Industry, Partner
- Peter Davis, Americas Advisory Managing Partner, Financial Services
- Imran Gulamhuseinwala, Global Head, Fintech and Implementation Trustee, Open Banking Initiative
- Matt Hatch, Americas FinTech and Growth Markets Leader
- Dave Hollander, Global Insurance Leader
- Gary Hwa, Global Financial Services Office Markets Executive Chair and Asia-Pacific Financial Services Office Regional Managing Partner
- John Liver, Partner, EMEIA Financial Services
- Marcel van Loo, EMEIA Financial Services Office Regional Managing Partner
- Peter Manchester, EMEIA Financial Services Office Insurance Leader

Tapestry Networks

- Dennis Andrade, Partner
- Eric Baldwin, Senior Associate
- Jonathan Day, Vice Chair
- Brennan Kerrigan, Associate
- Tucker Nielsen, Principal
- Simon Wong, Partner

About this document

About ViewPoints

ViewPoints reflects the network's use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants' comments appear in italics.

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The FSLs is an annual meeting addressing key issues facing leading financial institutions. It brings together non-executive directors, members of senior management, policymakers, supervisors and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring and trustworthy financial institutions. The FSLs is organized and led by Tapestry Networks, with the support of EY. ViewPoints is produced by Tapestry Networks and aims to capture the essence of FSLs discussions and associated research. Those who receive ViewPoints are encouraged to share it with others in their own networks. The more board members, members of senior management, advisers and stakeholders who become engaged in this leading-edge dialogue, the more value will be created for all.

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Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multi-stakeholder collaborations that embrace the public and private sector, as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable, and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

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EY is a global leader in assurance, tax, transaction, and advisory services to the banking industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients and for its communities. EY supports the BGLN as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

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