



FUTURE OF FINTECH:

Keys to Success in the New World of Financial Services

INTRODUCTION

“Fintech” has become a ubiquitous buzzword in the financial sector. The term “Fintech” is used interchangeably to describe both technology-driven innovation across financial services and a specific group of companies that combine innovative business models with technology to enable, enhance, and disrupt the financial services sector.

Incumbent Financial Services providers have proven they are able to build technology. There are many financial services technology advancements that have been accomplished over the years with thousands of technology patents as evidence. But, what they lack is the “startup-driven innovation” of Fintechs. These differences have created the passing lane for Fintechs to enter the market with highly targeted products and services, creating pressure for incumbents.

This eBook will provide you with a fresh perspective on the Fintech marketplace – key product developments, consumer trends and expectations, and a view into the future. As we peer into the future, we see new digital services replacing traditional banking products. But the road ahead is filled with construction, and Fintech providers will need to successfully navigate this environment and evolve their capabilities to remain relevant to consumers’ needs and interests.

A central question will be: How do you provide consumers with services to help them manage and improve their financial lives? We don’t believe consumers want a financial services account solely to replace existing accounts because it is digital. What they are seeking are relationships with providers that make managing financial matters easier and better integrated into their lives. For Fintech providers, developing the solutions that meet current and evolving consumer expectations will be key to their success.

THE FINTECH ADVANTAGE

Fintechs have a new way of approaching the financial industry that is not tied to a legacy of operations and organisational rules and structure. As a result, they can provide products and services that are faster, easier, and/or cheaper than what traditional banks can deliver.

By leveraging technology to deliver value and convenience, Fintech companies often target services with the most friction in the delivery process as well as those with the highest profit margins. Fintech firms are drivers of technology change in the industry, helping establish how Financial Services will evolve. The movement toward open banking and open APIs will only increase the speed of change as Fintechs' business models and technologies allow them to align with new opportunities very quickly.

Convenience and ease of use have been key drivers of Fintech growth. For many consumers, the simplicity of opening an account is the primary reason why they select a Fintech provider. A strong focus on the customer experience has delivered tangible benefits for customers across channels, including more choice, better services and lower prices. The overarching advantage Fintech solutions provide is the ability to make consumers' lives easier. This deeper understanding of customers has driven the creation of specialised products and services that align with the way customers want banking to function in their day-to-day lives. The new customer experience is more personal, instant, relevant, and seamless.



FINTECH: PRODUCT CATEGORIES

The Fintech market has many providers across different product categories. Many have entered the market with a single product proposition, and some are now offering more services to help establish stronger relationships and more engagement.

Fintechs are offering a wide range of products: personal loans, deposits, mortgages, savings/investments, credit cards, and payments. In addition to the new digital offerings, a new market has developed for “platforms” that enable a new shopping and purchasing environment for consumers and a new distribution channel for Financial Services providers.



PERSONAL LOANS

Once a credit product of last resort for many borrowers, personal loans have become the fastest growing segment of consumer credit in the United States. New Fintech entrants offering new product structures and flexible pricing have increased the popularity of the product. Consumers have responded favourably to the simple way to secure funding to support debt consolidation, larger purchases, and other financing needs. Personal loan originations have grown markedly across the credit spectrum – it is not just a credit product for consumers in lower credit quality segments.



DEPOSITS

This market has changed dramatically over the past few years as consumers have grown more comfortable opening accounts online and engaging in transactions away from the traditional bank branch. Technology has advanced and opening an account now can be a truly digital experience. This is not exclusively a Fintech domain, as many large banks have established online banks to attract digitally oriented consumers seeking higher interest rates. Digital-only banks have grown rapidly thanks to their strong focus on service and their ability to offer higher rates due to their lower cost of delivery.

FINTECH: PRODUCT CATEGORIES



MORTGAGES

Disruption has taken place in the mortgage industry with new data-driven and digital mortgage experiences. Both lenders and consumers have benefited from the change. Lenders on the forefront of this trend benefit from lower origination costs and shorter cycle times. And a better and less stressful borrower experience has created a much-improved experience for the consumer. A broad range of Fintech companies has developed solutions to support various lender business models and automation needs. Some of these products are designed to deliver a collaborative borrower experience with an emphasis on online lenders and mobile channels. Other functions focus as integrators of data and services across the mortgage supply chain, providing a one-stop shop while removing the need for lenders to manage multiple external integrations.



SAVINGS/ INVESTING

Services in this category included online investing, personal financial management tools, crowdfunding, and peer-to-peer (P2P) lending. Investing advice via digital delivery – think of Chatbots and RoboAdvisors – has become popular. Other new services include using open APIs to access accounts across providers to support investors with a complete picture of their assets. Many of these new capabilities are delivered via applications to help investors manage their money on mobile devices.

FINTECH: PRODUCT CATEGORIES

A blue-tinted photograph of several credit cards stacked on a surface. The text 'CREDIT CARDS' is overlaid in white, bold, sans-serif font.

CREDIT CARDS

New entrants have focused on the re-invention of and disruption to the credit card market. Connecting cards to mobile payments, enabling credit card use for a wide range of expense payments connected to rewards programs, providing the ability to better manage multiple credit card relationships through mobile applications – these are some of the areas of innovation. We are also seeing new uses of machine learning technology and alternative data to provide access to credit to the next generation of credit customers.

A blue-tinted photograph of hands typing on a laptop keyboard. The text 'FINANCIAL SERVICES PLATFORMS' is overlaid in white, bold, sans-serif font.

FINANCIAL SERVICES PLATFORMS

More financial institutions are adopting “platformification” to collaboratively attract customers and third-party service providers that fulfill customer demands. We look at this not just as a technology platform but also a business model that enables consumers and producers to easily connect. Platforms serve as magnets for consumers to evaluate and shop for financial services. Platforms also must make it easy for partners to plug in and scale. The key is to ensure the platform constantly remains modern and has an open architecture to interact with other partners, to bring the customer an enjoyable experience, and an offer that is personalised and contextually relevant.

CONSUMER ADOPTION. WHAT DO CUSTOMERS WANT AND EXPECT?

Today's consumers expect Financial Services providers to integrate their banking across their financial and lifestyle needs. There are many reasons why consumers select Fintech providers.

PERCEIVED USEFULNESS

This is an important factor related to consumers' perceptions about using the technology, how it improves their work efficiency, and how it fits into their daily lives. Perceived usefulness has a positive impact on consumers' adoption and intentions.

PERCEIVED EASE OF USE

While similar to perceived usefulness, this represents the degree to which consumers feel comfortable and make efforts to learn how to use Fintech services. Consumers want to know if the experience is better than the traditional banking experience and if it meets their needs. If users think Fintech services are convenient, friendly, and easy to use, they are more likely to adopt them.



BRAND IMAGE

Brand plays an important role and is an intangible asset with economic value. Consumers' image of a brand plays a role in establishing perceptions of quality, value, and satisfaction. A good brand image can generate trust and help build solid relationships with customers.

ATTITUDE

There is a strong correlation between consumers' judgments and tendencies about Fintech providers and their propensity to adopt new technologies. Fintech providers must keep that in mind as they market their services.

GOVERNMENT SUPPORT

Government has been one of the biggest drivers of Fintech adoption. It can increase the credibility and perceived reliability of products and services and improve the publicity of the application. In the U.K., the government has played a role in the definition of the technology (including PSD2 and open banking) and has provided financial backing of the infrastructure, thus making Fintech services more acceptable to potential customers.

TRUST

Because consumer data is involved in the provision of Fintech services, trust is very important. If there is a perception of risk, thus a lack of trust, that will negatively affect the adoption of new technology.

These risks are associated with the use of personal data, transaction data, and other privacy information, and misuse can lead to serious consequences. The importance of trust can vary by product (i.e., borrowing vs. investing) based on consumers' sensitivity about the service.

CONSUMER ADOPTION TRENDS

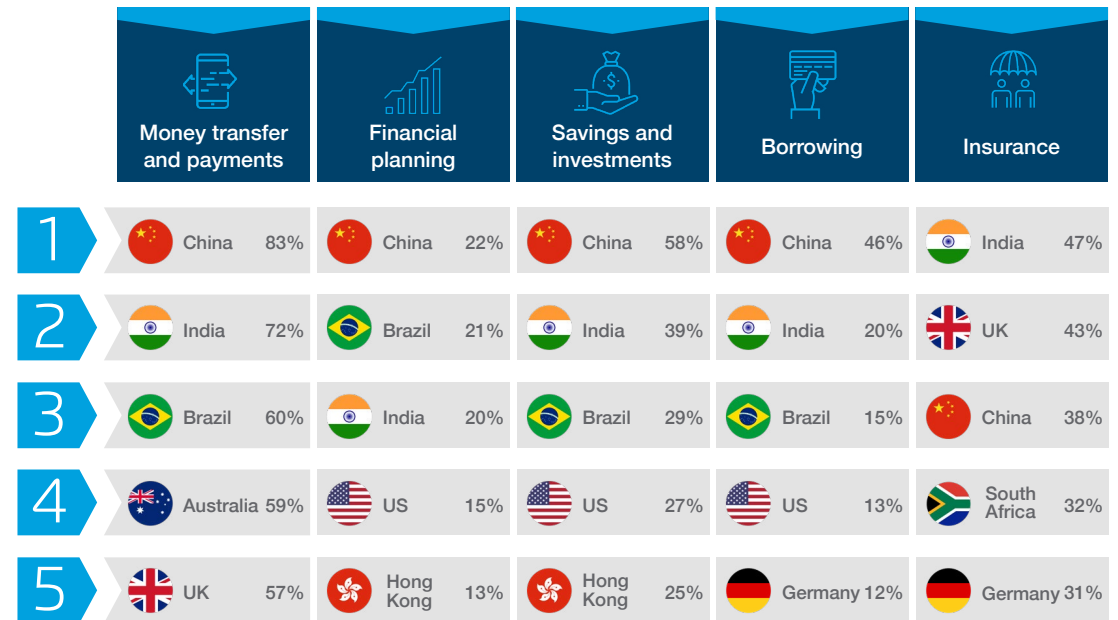
Fintech adoption has nearly doubled over the past 18 months. Fintech providers are no longer small disruptors and are poised to become formidable competitors. There is a profound reckoning taking place in the Financial Services industry.

Adoption by Geography

Fintech has achieved mass adoption in most markets. However, adoption rates vary by market. The presence of tech-literate consumers and markets that are underserved or unhappily served by traditional Financial Services providers affects geographic adoption. For example, China and India have the highest adoption rates. Much of their success is the result of tapping into the tech-literate, financially underserved populations that make up a large percentage of the population in emerging countries.

In other markets like the UK, there are regulatory factors that influence adoption. Government support in the UK helps Fintech initiatives with new licensing regulations and infrastructure developments such as open APIs.

Figure 1: Comparison of the top five markets with the highest Fintech adoption for each Fintech category.



Notes: The figures show the average percentage of respondents in each market who reported using one or more Fintech service in that category.

Source: E&Y Fintech Adoption Index 2017

Global investment in Fintech continues to rise. Mature areas of Fintech (payments and lending) are seeing increased investments and strong exits. Open banking, in particular, will see a lot of activity – both from traditional Financial Services providers looking to partner with Fintechs and from Fintechs using open banking to extend their value proposition.

CONSUMER ADOPTION TRENDS

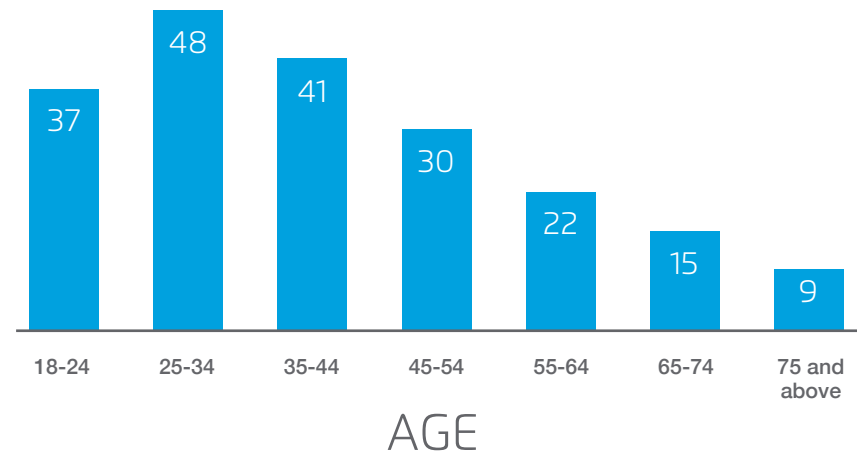
Adoption by Demographics

It is no surprise that use of Fintech products and services is higher among younger consumers, many of whom have not developed strong relationships with traditional providers and are also more tech savvy. This consumer segment has also adopted a digital-first approach in other areas of their lives (i.e. online shopping, ride sharing, music streaming). The combination of these factors increases adoption rates for this segment.

A stronger preference for traditional Financial Services can be a barrier to adoption by older consumers. Concerns with switching costs and friction also factor into their lack of interest in newer Fintech services.

While age may impact adoption of Fintech services, we believe all ages share concerns on matters such as data security and privacy. And, some services (like comparison sites) are popular across multiple demographics.

Figure 2: Analysis of Fintech adoption across age brackets.



Notes: The figures show average rate of Fintech adoption across the age demographics in our surveyed population.

Source: E&Y Fintech Adoption Index 2017

As Fintech brands and services become better known, we believe adoption rates will accelerate. We also anticipate that Fintech users will adopt more products and services as their satisfaction with the ones they use increases. As Fintech firms expand and diversify their offerings, that will drive higher usage. Products that resonate with early adopters will also generate recommendations, supporting growth through word of mouth.

KEY FACTORS FOR FINTECH GROWTH

While consumers have been the real winners as Fintech products and services have entered the market, not all Fintech companies will be winners. Some will demonstrate staying power, while others will fail to find their place in the market. As Fintech companies reach their next phase of growth, they will face several challenges.



LEVERAGING DATA

Fintech companies must understand the importance of data. The ability to access and make sense of data powers Fintech's acceleration as an industry. Startups are giving the incumbents a run for their money, not because they're generating or accessing more data, but because they're looking at it differently and using it in new ways. When a Fintech company gets clarity around data, makes sense of it, organises and cleanses it, and combines traditional and non-traditional sources in new ways, it can out-manoeuvre and out-innovate incumbents.



SCALABLE TECHNOLOGY

To continue to grow, Fintech entrepreneurs also must maintain their operational health. Innovation will remain an important part of the mix, but it is equally important to have the technology and processes in place that enable companies to scale and ensure they continue to provide the experience customers have come to expect. This includes business continuity, regulatory compliance, data security, and the ability to work with other vendors or satisfy government regulators.



EXTEND REACH

The companies that survive must increase consumers' awareness of their products and services to achieve broader adoption. To accelerate market advantage, they must generate momentum through market visibility. Relationships and trust play critical roles in adoption, and endorsements from "champions" is vital – in both online and offline social networks. It is also important to build a distinct identity, because the market is getting crowded. Consumers have a lot of choices, and there is some confusion in the market.

Successful Fintech providers will also need to create frequent interactions with customers, above and beyond today's needs-based transactions, to strengthen customer relationships. Today's customers want a Financial Services provider to be clairvoyant and anticipate their needs. Banking is taking more of a life stage/life event-based focus, and Fintechs must be able to engage with customers in a more personal manner as their needs change. This will enable Fintechs to play a more central role in their customers' lives.

ACXIOM PARTNERSHIP WITH THE FINTECH INDUSTRY

There is no doubt that Fintech adoption is growing. But to sustain, Fintechs must accelerate the growth of their customer base and scale their operations. They also must continuously refine their value proposition and modify their strategies.

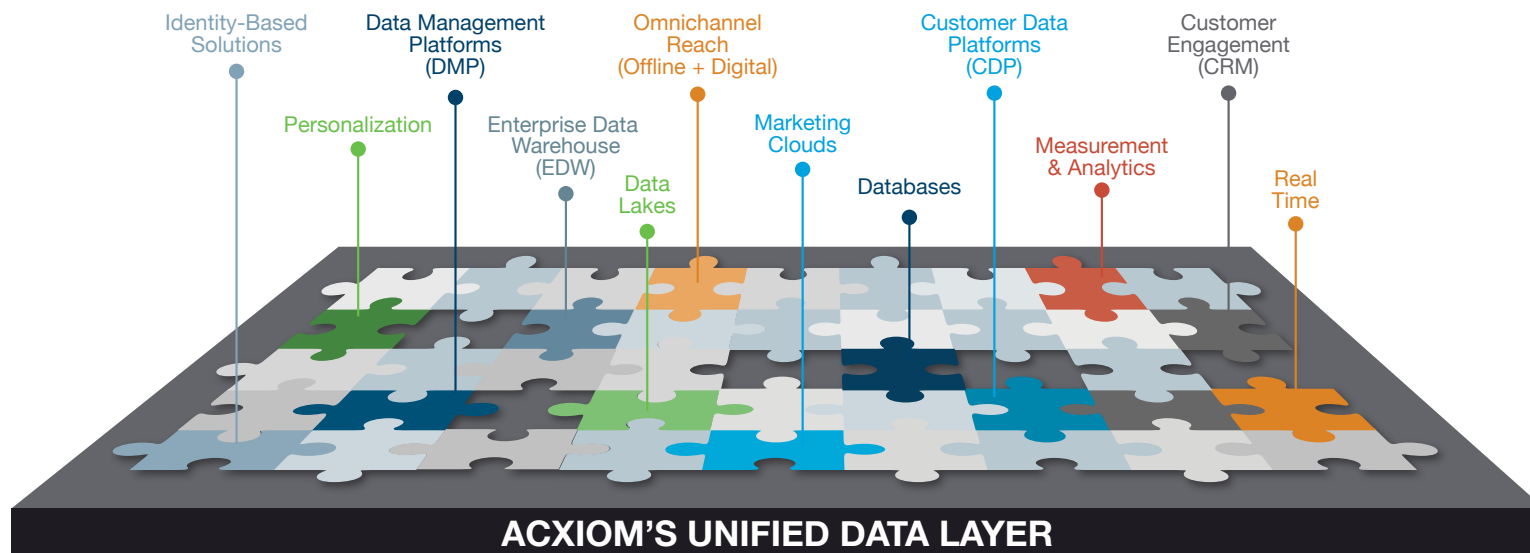


Access to banking and lifecycle transactions must be integrated to establish the Fintech provider as an everyday adviser, facilitator, enabler, and a single point of entry to financial services.

Fintech companies have a unique opportunity to develop a holistic and contemporary data strategy that enables truly differentiated customer experiences. To accomplish this, their data environments must capture and integrate new sources of data and then enhance it and make it available quickly for analytical purposes. A comprehensive data strategy should not only address current identified data sources, but it also needs to be flexible enough to quickly accommodate potential future-state sources that may not even exist today.

With the sheer volume of data increasing exponentially, and a wide variety of new sources coming online every day, the underlying technology and data environment must easily scale. While traditional providers struggle with data silos, Fintech companies have an opportunity to create a unified data layer (UDL) that provides agility and flexibility in managing the broad range of data sources and easily connects to omnichannel marketing and advertising ecosystems.

A UDL can bring together all data from known and anonymous consumers, customers and prospects, digital and offline interactions and first-, second- and third-party data into a single environment. The UDL employs cutting-edge cloud architecture to ensure long-term scale and flexibility. A core component to the UDL is identity management and resolution, providing a 360-degree view of customers and prospects across all data sources and touch points.



ACXIOM CAPABILITIES

EMBEDDED ANALYTICS

Investments in data and analytics should be at the heart of a Fintech's growth strategy. New advancements are being made every day in advanced analytics with machine learning and artificial intelligence. These embedded analytics enable real-time decisioning that generates personalised and contextual experiences across financial and lifestyle needs.

Acxiom delivers the data foundation that provides rapid delivery of actionable data combined with pre-integrated toolsets, including R, H2O, Python, SPSS, SAS, or integration with open-source tools, enabling better and faster analytics and business impact. As machine learning and artificial intelligence are adapted to drive consumer engagement and experiences, the underlying data environment that fuels these capabilities will become increasingly important. In many instances collecting, cleansing, and enhancing the data is commonly viewed as 80% of the effort in a machine learning initiative.

ACXIOM CAPABILITIES

MODERN TECHNOLOGY AND OPERATIONAL SUPPORT

Success in the new era of Financial Services will rely on emerging technologies like cloud computing. The ability to respond to changing technology developments and integration of the complete marketing technology ecosystem is critical to optimise performance and lower operational cost.

The cloud is empowering Fintech companies to become more flexible and agile. Unlike incumbent firms that struggle with legacy systems, Fintechs can nimbly ideate, develop, and test new solutions with cloud support, which makes iterative development and on-the-go customer feedback manageable. Lower cost is another advantage Fintechs can leverage to generate savings for customers, further adding to the positive experience.

Given the importance of reach, it is critical that Fintechs can scale their operations without sacrificing service quality. Having a scalable and flexible operational environment is important, as customers expect a high level of reliability.

In addition to having a secure and highly reliable operating environment, Fintechs must also operate with high standards for data privacy and security. Diligence in consumer privacy and security is and will continue to be paramount. New demands from government agencies and consumer advocacy groups must be addressed in all areas of operations. Preserving brand integrity and delivering a positive customer experience is a top priority for every Fintech. Acxiom supports its clients with the ability to manage large sets of data ethically, securely, within legal boundaries, and in a way that protects consumers.

ACXIOM CAPABILITIES

INDUSTRY BEST PRACTICES

With the support of Acxiom, Fintech companies can deploy long-standing industry best practices despite the fact they've been around for only a few years. Acxiom has embedded established best practices into its operational solutions to help Fintech companies effectively compete. In addition to supporting highly complex and scalable data environments, we also offer specialised expertise around marketing best practices that align with our solutions. Below are just a few areas where we provide guidance and support.

ORGANISING OMNICHANNEL MARKETING DATA



- Evaluation of current data sources and recommendation of additional data sources based on industry best practices
- Identification and organisation of data sources for targeting, segmentation, modeling, measurement, reporting and personalisation
- Data governance and privacy best practices

MARKETING SEGMENTATION AND TARGETING



- Establishing segmentation/targeting and recommendation of audiences and targeting
 - Alignment of segmentation and targeting with back-end measurement to ensure desired key performance indicators (KPIs) can be measured
 - Establishing data enhancement options to better understand consumer preferences that can drive targeting and channel recommendations

MARKETING PERSONALISATION



- Evaluation of existing data and identify sources that can drive personalisation
- Alignment of personalisation attributes to marketing segments and campaigns
 - Creating and testing a measurement plan to evaluate personalisation effectiveness

MARKETING MEASUREMENT



- Evaluation of current marketing campaign KPIs and recommendation of incremental or adjusted KPIs based on industry best practices
- Alignment of campaign KPIs to current measurement process, identifying any gaps and recommendations to resolve

ACXIOM CAPABILITIES

FAST IMPLEMENTATION

Acxiom has extensive experience implementing advanced solutions for Financial Services clients. Our implementation process has been fine-tuned over our 50-year history, providing a flexible, fast and efficient experience. Implementation can be completed in an average of 90-120 days, so we can achieve the fast speed-to-market that Fintechs expect.

WILL THE FINTECH BUBBLE BURST?

The answer is no. Re-architecting Financial Services with waves of technology innovation and business models will continue. But Fintechs will need to take important steps to remain relevant. Several business models may emerge:

DIGITAL CATEGORY KILLER: Companies that focus on doing one thing very well. This company provides a best-in-class branded value proposition, technology, and services features (ease of use, rich functionality, value-added services)

UTILITY FACTORY: Companies that provide access to their infrastructure and other assets, such as a white-labeled product, to third parties.

DIGITAL RELATIONSHIP MANAGER: Vertically integrated bank business model (balance sheet, product manufacturing, and distribution) to serve a wide range of customer needs and segments. These firms will leverage open banking/APIs and bank-owned solutions and infrastructure.

OPEN PLATFORMS: These will be the marketplaces where producers and consumers connect and exchange value. The platforms serve as a magnet, attracting the most desirable consumers and providing a range of products and services.

Whatever models emerge, we believe Fintechs represent a threat to incumbent firms' market share, revenue, and strategic models. However, they also create opportunities for incumbent firms to differentiate themselves and become more competitive. In the future, we anticipate seeing more joint ventures, acquisitions, and investments in Fintech firms. Incumbent banks can learn from and acquire Fintechs to enhance existing offerings, provide new services, address customer needs, and improve operational efficiency. All financial institutions will need to evolve – incumbents, digital banks, and neobanks.

ABOUT ACXIOM

Acxiom Corporation is a global technology and marketing services company with a vision to transform data into value for everyone. Through our technology and approach to connecting systems and data, we provide the data foundation for the world's best marketers. By making it safe and easy to activate, validate, enhance, and unify data, we provide marketers with the ability to deliver relevant messages at scale and the ability to measure marketing results. Our clients include many of the world's largest, most forward thinking and fastest growing Financial Services companies. We believe we can help. To continue the conversation, let's get in touch.

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