Fintech – Existential Threat or Another Tech Bubble?

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Twin threats to traditional banking
Disruption is happening across the banking value chain, but so is the incumbent response

**Fintech Disruptors**
- Ripple: Bank2Bank Blockchain payment solution
- LendingClub: Credit marketplace
- Wealthfront: Robo-advisory
- Betterment: Digital KYC for faster verification for saving accounts
- US Bank: Fully Digital Mortgage product - One Click Mortgage from e-application to e-closing
- CommBank: Image based services such as photo bill using OCR
- State Bank of India: Digital KYC for faster verification for saving accounts
- Westpac: Red Button for impulse saving
- ANZ: Mortgage sales via Videoconferencing

**Incumbent Responses**
- UBS: Credit marketplace
- HDFC Bank: Smart Buy Services offering different products
- ICICI: Credit marketplace
- Goldman Sachs: P2P platform differentiated through brand, rates
- Kabbage: Credit scoring in minutes leveraging real-life/social data
- OnDeck: Big Data enabled online risk assessment
- Wells Fargo: Facial Biometrics

**NOT EXHAUSTIVE**

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Combination of Fintech and Regulation materially changes the economics for traditional banks

Forecast EU Retail Payments Revenues for Banks
(EUR Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Organic growth 2015 - 2020</th>
<th>2020</th>
<th>Interchange Cap</th>
<th>Digital disruptors</th>
<th>PSD2</th>
<th>2020 After Disruption</th>
<th>Digital transformation</th>
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<td>2015</td>
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<td>-9%</td>
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</table>

- APIs,
- Identity mgmt.
- Instant payments
- Blockchain

Source: Accenture Research
Traditional Bank

- Bureaucratic
- Amnesiac
- Customer as supplicant
- Economically challenged
- Poor customer experience
- Channel silos not solutions
- Dual-speed IT

In my community
- Regulated and safe
- Transactional trust
- A familiar face
- Good at complicated
- One stop shop
Mobile Bank

Basic products
Faceless
Transient?
Unregulated
Equity burn not equity return
Stateless
Utopian

Simple and elegant
Exciting and new
Low-cost
Adaptive and intelligent
Digital native technology
Digital community and UGC
Customer in control
Happy customers, regulators and shareholders

‘Digital+’ not ‘Physical+’ mentality

Uncompromising cross-channel CustX

Less branches and people, but higher stakes

Phydigital communities

F2B technology strategy

On-demand complexity

Co-opt or scare off Fintech
Reaction 2 – Think About The Value Chain

- Customer Engagement and Brand
- CRM and Analytics
- Customer Journeys
- Product Manufacturing
- Core Transaction Systems
- Balance Sheet

Traditional Bank → Mobile Bank
Strategic Choice – The ‘Sandwich’ Bank

- Customer Engagement and Brand
- CRM and Analytics
- Customer Journeys
- Product Manufacturing
- Core Transaction Systems
- Balance Sheet
Strategic Choice – The Customer Manager

Traditional Bank

Customer Engagement and Brand
CRM and Analytics
Customer Journeys
Product Manufacturing
Core Transaction Systems
Balance Sheet

Mobile Bank
Strategic Choice – The Partnership Bank

Traditional Bank

- Customer Engagement and Brand
- CRM and Analytics
- Customer Journeys
- Product Manufacturing
- Core Transaction Systems
- Balance Sheet

Mobile Bank
Strategic Choice – The Utility Bank

- Customer Engagement and Brand
- CRM and Analytics
- Customer Journeys
- Product Manufacturing
- Core Transaction Systems
- Balance Sheet
Challenge and opportunity means winners and losers

Innovation from outside the banking sector is new and threatening.

Fintech capabilities give banks the opportunity to be the best version of themselves.

Technology and regulators are creating new business models that can be opportunities or threats.

The winners in traditional banking will be able to optimize across both dimensions.

Normal VC rules will apply to FinTech, while GAAFA is more the existential threat.

BANKING IS GETTING A LOT MORE INTERESTING AND COMPLICATED!