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FINANCIAL SERVICES TRANSFORMATION

IN THE ERA OF THE EMERGING DIGITAL CONSUMER

If the rate of change on the outside exceeds the rate of change on the inside, the end is near.

— Jack Welch

Evolving consumer expectations and rapid technology growth are disrupting the financial services industry. According to Accenture research this is predicted to continue, with banking, insurance, and capital markets placed in the top six industries most susceptible to further disruption. At the same time, the financial services competitive landscape is experiencing an unprecedented number of new entrants jockeying for market and mind share. Institutions must evolve to meet these new threats or risk putting their future value at stake. The question is, how best can financial services companies keep up?

The changes beginning to occur today will drastically affect how financial services companies serve their customers in the future. To understand how that might look, let us meet Sophia—a future financial services consumer.

Sophia is a typical millennial; technology is embedded in most interactions in her life, leading her to appreciate innovation and convenience above all. Sophia's views of privacy have been influenced by growing up in the digital age and reflect a willingness to trade personally identifiable information for more personalized products and services.

Sophia is college-educated and is beginning to outearn some of her male peers. She began making financial decisions in college and relies upon her social network and the internet for investment advice. Sophia represents the future of consumers in the United States.

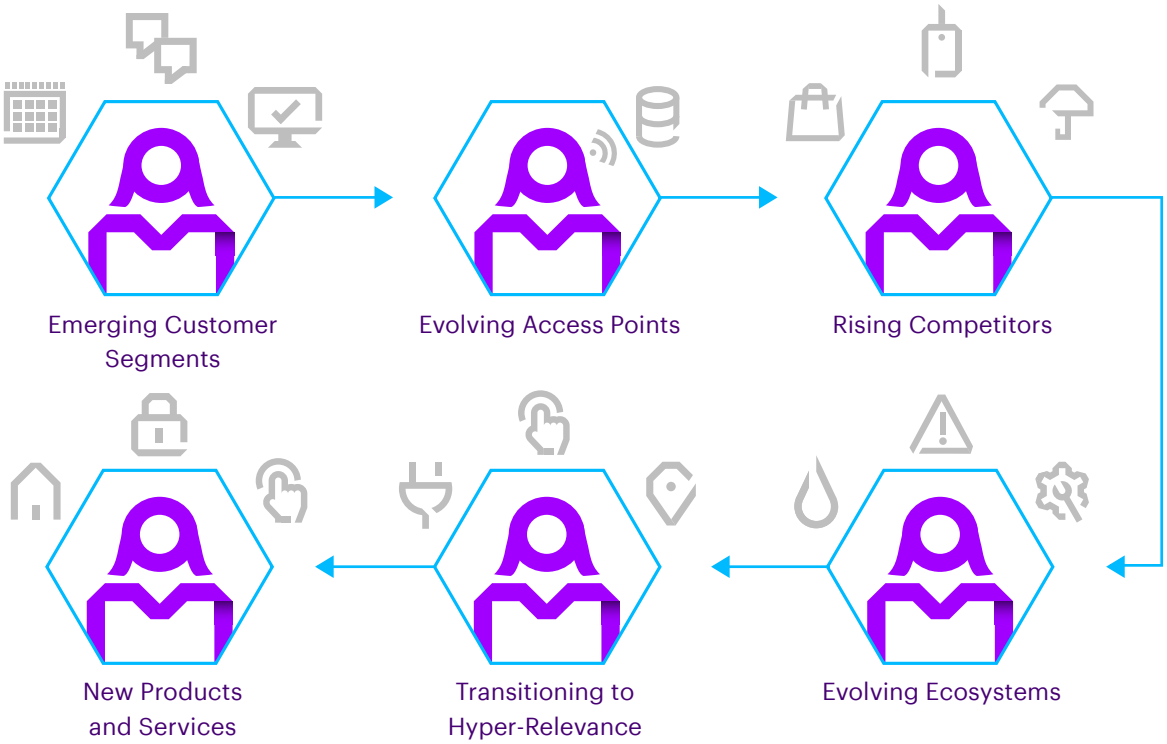
SOPHIA

A future financial services consumer

31 years old, bilingual, tech savvy

By 2020, Sophia and her partner will be ready to settle down together and will need to manage new financial goals. To begin their journey, Sophia and her partner make the decision to purchase a home together. Since she and her partner both started saving after college, they have accumulated enough for a down payment. Sophia and her partner are new to the home buying process and need help with a mortgage. With her trust and reliance on the tech she utilizes on a daily basis, she turns to her digital assistant to help begin her search for a mortgage lender. Her digital assistant will provide her with many options, from traditional mortgage lenders, to nontraditional ones like big tech companies or peer to peer lending options from fintech startups. Her digital assistant will also provide her with customer ratings, so she can compare companies and personalized quotes based on her unique needs. If she has questions for a certain lender, Sophia will be able to interact with that lender's help bot in real time, eliminating the need to speak to a customer service representative.

Sophia's Financial Services Journey



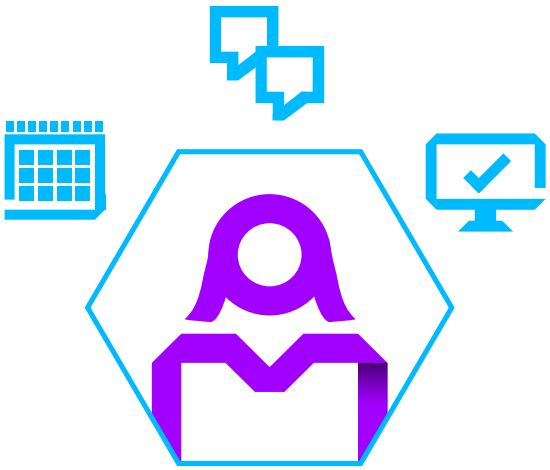
Sophia and her partner ultimately decide to purchase their mortgage through a big tech company, as they trust and use this company for many other aspects of their lives. Once they have found a home, their attention turns to ensuring that it is safe. To do this, Sophia begins her search for insurance providers. About to make the biggest purchase of her life, she wants an insurance provider with a large ecosystem of partners that can help her safeguard and protect her purchase. She finds a solution that integrates with smart home technology to provide personalized plans and a customized pricing model. Sophia is sold; she loves the fact that the smart sensors will be used to monitor her home for any potential hazards. She uses her digital assistant to purchase and schedule a white-glove installation. After Sophia purchases the plan, her digital assistant automatically queues up demonstration videos to help her learn how to use the solution.

Fast forward a few months and the smart sensors in Sophia's home have detected a leak in one of her pipes. Sophia's insurance company will be able to immediately inform her of the leak via her smartphone and provide the option to schedule a service appointment with a reputable plumber, or fix it herself with guidance from a video help bot provided by the insurance company. Sophia chooses to try and fix it herself and runs to the local hardware store for supplies. When she is checking out, her smartphone automatically identifies and uses the credit card that will earn the most rewards or cash back. Sophia loves the tailored and hyper-personalized experience she has come to expect from her financial services providers.

The unplanned expense of fixing the pipe, a new mortgage, and the potential for kids in the near future, causes Sophia and her partner to think more about their long-term financial goals. Sophia feels confident in her knowledge, and likes to have ownership in her financial planning, but realizes that she needs more tailored advice than the robo-advisor platform she has been using. As a result, Sophia chooses to use a wealth management company that has a hybrid model. She is able to leverage both technology and a human advisor to make and maintain a financial plan for her and her growing family.

While just an illustrative example, Sophia's journey is based on six industry trends that hypothesize potential futures within financial services. By exploring these futures in depth, financial services institutions can begin to understand tomorrow's consumer and prepare to competitively meet their demands.

TABLE OF CONTENTS



EMERGING CONSUMER SEGMENTS

A POTENTIAL FUTURE

As early as 2022, emerging consumer segments will increase in importance within financial services, drastically altering the financial institutions value proposition and message to consumers.

Sophia is an example of emerging consumers whose needs will demand increasing consideration.

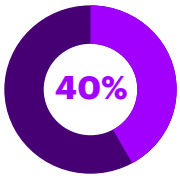
As women, minorities, and millennials experience significant economic growth, it will become even more important for financial institutions to engage them through new value propositions and marketing catered to their specific needs.

Women have made great economic strides in the last few decades. Although women still earn less than men as a whole, they are chipping away at the gap. As female buying power increases and women take more active roles in their financial decisions, financial institutions must embrace this increasingly significant customer segment and their corresponding needs.

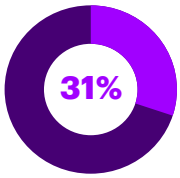
In wealth management, for example, women demonstrate a desire for a different experience than men. Women seek out guidance and tend to rely on dedicated advisor models more than men.[1] Additionally, women tend to be more conservative long-term investors than men, with their goals revolving around long-term financial stability, such as a sustainable retirement. More than 55% of women say that they want financial services to provide better recommendations based on their life and career stages.[2] However, financial services institutions have historically catered to men and their associated financial goals. Even today, over 85% of wealth managers are men, generally over 50 years old.[3] As a result, this traditional male-centric investment approach may not be fully meeting women's unique investment needs.

Ellevest, a wealth management platform launched in 2017 that caters specifically to women, is trying to change this. Ellevest serves women's unique investment needs by considering the fact that women's salaries tend to peak earlier than men's, and that women tend to live longer than men, among others.[4] As a result, the financial recommendations made by Ellevest are tailored to each customer's unique needs. Such a strategy is one way to serve an increasingly important consumer group.

Today, over 47% of the US workforce is female[5]



Women in the labor force with college degrees[6]



The number of women who now outearn their partners[7]

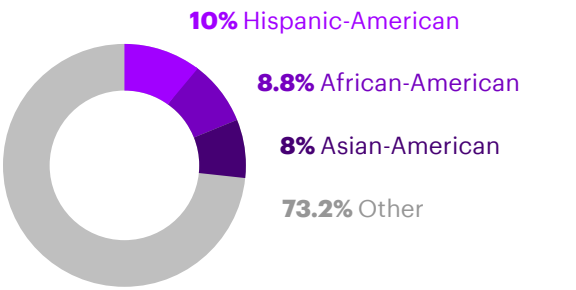
The ethnic distribution within the U.S. is also changing, with minority groups growing in buying power.

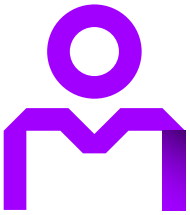
Although underrepresented minorities are not currently the core focus for many financial institutions, there are many reasons why financial institutions should act now to serve these segments. The Community Reinvestment Act already motivates institutions to serve diverse populations. However, there is also a compelling financial reason. Minorities "are predicted to make the largest gains in terms of buying power," and by 2021 they are predicted to be almost one third of the nation's buying power.[8]

The Hispanic-American population is continuing to grow. Currently, Hispanic-American buying power comprises around 10% of the nation's total buying power.[9] However, with 35% of the Hispanic-American population under the age of 18, the group will experience a rapid increase in buying power as youth begin to enter the workforce and advance in their careers.

Similarly, African-Americans are making significant gains in terms of buying power. African-Americans are graduating college at higher rates, entering occupations with higher salaries, and the prevalence of African-American entrepreneurship is growing.[11] Together, these are helping to grow African-American buying power. Between 2000 and 2016, African-American buying power increased by 98%, and is predicted to become 8.8% of the nation's total buying power by 2021.[12]

Buying power in 2021





35% of the Hispanic-American population in the U.S. is under the age of 18[10]

27% of black millennials hold a college degree[13]

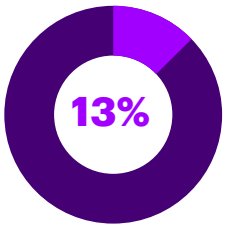
Asian Americans make on average **$20,000** more than the rest of the US population[16]

Finally, Asian-Americans represent another segment of growing interest for financial services companies. From 2000 to 2016, Asian-Americans experienced the largest percentage increase in buying power of any minority group.[14] By 2021, their buying power is predicted to increase to almost 8% of the nation's total. Additionally, Asian-Americans tend to have higher graduation rates than the overall population and earn more compared to the rest of the US, which translates into further increases in buying power over the coming years.[15]

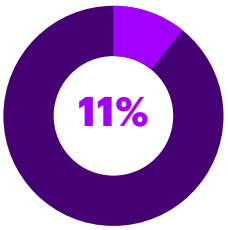
Financial services companies must take note of and understand these emerging groups in order to cater to their specific language, cultural, and socioeconomic needs. Over half of bilingual consumers, for example, said that being able to get information in their own language is more important than price.[17] Additionally, acknowledgement of important cultural holidays has seen success when marketing to minorities.[18]

One successful example of reaching minorities is the ability to recognize the nuances within the groups themselves. While belonging to the larger Hispanic demographic, Mexican-Americans also have their own unique sets of values and traits. To reach the millennial segment of this group AT&T leveraged not Spanish, but Spanglish in their "Mobile Movement" campaign, to wide success.[19]

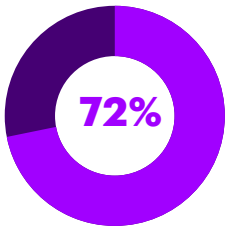
Over 21% of the US population speaks a language other than English at home[20]



The percentage of bilingual customers that said a **greater sensitivity to cultural values** (e.g. cultural holidays) was a top way for financial services institutions to better tailor their interactions[21]



The percentage of bilingual customers that stated **better bilingual support** would improve their experience[22]



The percentage of bilingual customers that indicated they would be more likely to buy a product **with information in their own language**[23]

As the U.S. population ages, millennials will become a driving force of the economy and responding to the needs and values of the millennial will become even more critical to successful customer engagement.

Millennials are the first digital natives, having grown up with laptops, cell phones, and the internet from an early age. Their affinity to technology is unlike that of any other generation. Technology is such a defining feature of their lives that millennials themselves rate "technology use" as the number one factor that makes their generation unique.[24] As this tech-native consumer rises, financial institutions must integrate more digital features and innovative technology experiences into their offerings or risk losing engagement.

Millennials also demonstrate unique experiential needs. They grew up with product reviews and social tools to share opinions before committing to purchase. Therefore, leveraging influencers and generating excitement is an effective strategy to engage millennials. Some financial institutions have started to try and reach millennials by exploring the idea of a hub-based bank. Umpqua Bank, for example, has created branches that offer coffee, sewing groups, yoga classes, and other features meant to evolve the physical bank into a community-based experience.[25] However, these are just early experiments and have not been adopted at scale. To truly serve millennials' growing needs, the entire industry needs to consider incorporating more innovative and immersive experiences that deliver a unique value proposition.

In addition to being tech-dependent and social, many millennials matured at the height of one of the worst economic situations since the Great Depression, and are now graduating with more debt than previous generations.[26] Add to that the increasing cost of living and lagging wage increases and you have a generation of price sensitive consumers. Across banking, insurance, and wealth management, almost half of U.S. millennial consumers say competitive pricing is one of the most important factors that makes them stay with their current provider.[27] At such a high importance to consumers, price sensitivity should be considered as financial institutions deliver messages and products.

Traditional life events are historical trigger points to purchase financial services, but millennials are beginning to delay events such as marriage, buying a house, and starting a family.[28] They are also embracing new economic models, such as the sharing and gig economies. Together, these are influencing when and how millennials buy financial services, making new messages around flexibility and new definitions of family (e.g. partners, not spouses) more important. When asking millennials how their financial service provider could provide better tailored experiences, almost 50% ranked better recommendations based on their life events and their career stage as their top response.[29] This indicates that financial services can do a better job considering these changing life events while designing and marketing products and services.

In wealth management, millennials are taking their investments and financial management into their own hands. Significantly more millennials in the U.S. and Canada feel confident in their investment knowledge than older generations.[30] Even those who do consult with a financial advisor have less trust in their advisor compared to older generations, with 52% of millennials versus 18% of boomers saying they would consult with another source before taking the advice of their advisor.[31] Their investment confidence and lack of trust in advisors will require wealth management companies to reconsider strategies and provide more tools that facilitate self-investing.

It is evident that these emerging tech-native consumers have specific needs and motivations. If traditional financial services institutions do not act quickly to serve them, new entrants likely will. Whoever engages these emerging segments early will be able to understand their consumers' needs more intimately, and ultimately provide better service. If institutions wait until these emerging segments have already "emerged," it may be too late.

Millennial Profiles

TECH-DRIVEN

Almost **75%** of millennials feel that new technology makes their lives easier[32]

GROWING BUYING POWER

By 2020, U.S. millennials will have the **largest purchasing power of any generation**, spending over $1.4 trillion annually and representing **30%** of total retail sales[33]

EDUCATED, BUT INDEBTED

In two decades the average student debt has tripled. In 1994 about **50%** of college graduates graduated with debt, averaging **$10,000**. In 2016 over **66%** of college graduates graduated with debt, averaging **$35,000**[34]

EVOLVING ACCESS POINTS

A POTENTIAL FUTURE

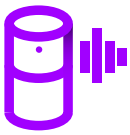
By 2025, a majority of U.S. consumers will use new access points like digital assistants to choose, guide, and conduct their financial services transactions.

Sophia is a tech-native consumer and is very comfortable using her digital assistant for day-to-day activities. In fact, her digital assistant was the first resource she reached out to search and evaluate mortgage lenders.

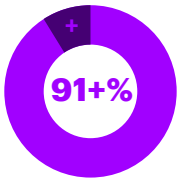
Consumers are already becoming more comfortable using new technology entry points (e.g. digital voice assistants, chatbots, video chat) for day-to-day activities to search for and use financial services products.

Overall consumer willingness to adopt emerging technology is growing across different forms, from autonomous cars to virtual reality. More than half of online consumers are willing to be a passenger in a self-driving vehicle and are interested in using AR/VR to shop for household items and furniture. Today, close to 60% of consumers would like to replace their smartphone with a wearable solution.[35]

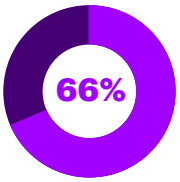
Within financial services, digital assistants may have the greatest potential as a new avenue for consumers to search, purchase, and use financial services products. Digital voice assistants have been on the market for less than five years, but have rapidly grown in adoption and use.



41% of US financial service consumers stated that they own a stand alone digital voice assistant[36]



Digital voice assistant satisfaction[37]



Percent of consumers that say since buying their digital voice assistant, they use their smartphone less[38]

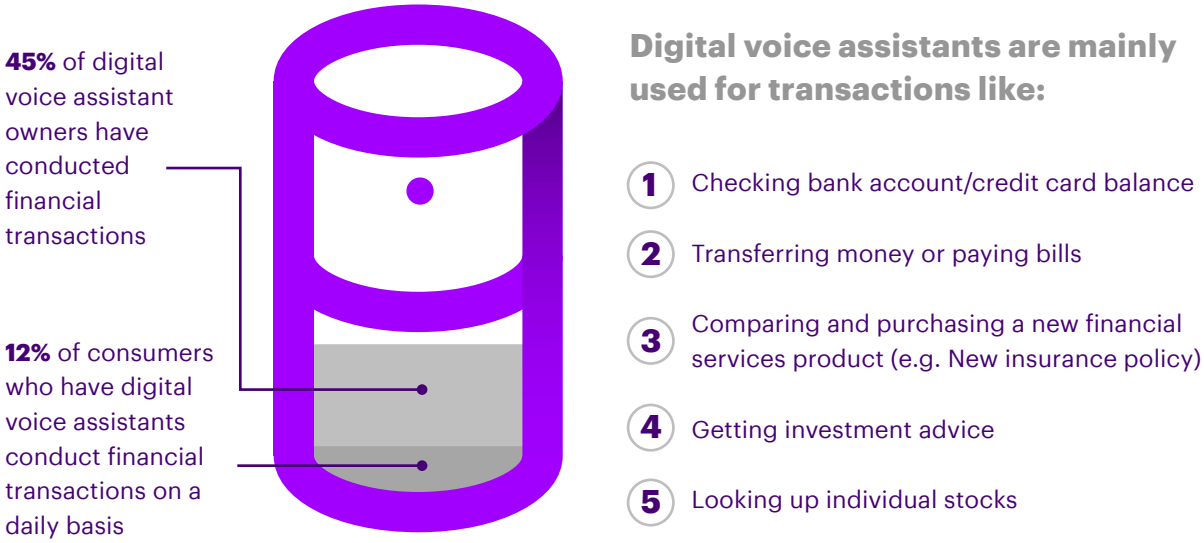
In a recent Accenture survey, 41% of US financial service consumers stated that they own a digital voice assistant.[39] Of those people, over 45% have used their digital assistant to conduct financial transactions, with 12% conducting financial transactions on a daily basis (Figure 1).[40] Satisfaction with standalone digital assistants is so high that consumers have begun to use their smartphone less.[41] This level of success is helping digital voice assistants transcend beyond just being viewed as gadgets. Twenty years ago, most people did not understand how smart phones would drastically alter how Americans conduct their everyday lives. Digital assistants have the potential to influence tomorrow in the same way.

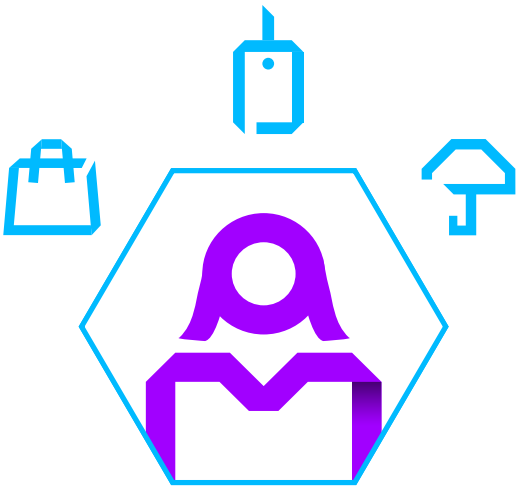
From the industry's side, companies are beginning to invest in delivering this future. Almost 30% of global executives in banking and insurance are piloting artificial intelligence (AI) and Internet of Things (IoT) technologies in their company.[42] Some financial services institutions, such as Capital One, American Express, and Ally, have launched an Alexa skill allowing consumers to check balances and pay bills simply by asking Alexa. Liberty Mutual skill users can even ask for and receive a quote directly on Alexa.

Even though investments are being made today, financial institutions should further increase investment and development of these capabilities just to keep up. Technology companies are already setting the bar. In the future, consumers will want to conduct increasingly complicated financial services business with these assistants.

Investing in new access points is crucial to providing the experience that tomorrow's consumer demands. Given the accelerating adoption and functionality of these technologies, companies must move quickly to master new access points, which will be key to engaging consumers in the future.

FIGURE 1:
DIGITAL VOICE ASSISTANT USE FOR FINANCIAL SERVICES[43]





RISING COMPETITORS

A POTENTIAL FUTURE

By 2020, 70% of consumers will routinely conduct at least one financial service with big tech companies.

When Sophia searched for lending companies, her options were not restricted to traditional institutions, but also included big tech and new technology companies. Sophia and her partner ultimately decided to purchase their mortgage through one of these big tech companies, as they already trust this company and use their services in other areas of their life.

Consumers, whether they are aware of it or not, baseline their interactions with companies on leading technology experiences. This means that consumers are allowing their experiences with big tech companies to define their interactions with financial services. Given these expectations, consumers are even demonstrating willingness to consider setting up an account or purchasing financial services from big tech.[44]

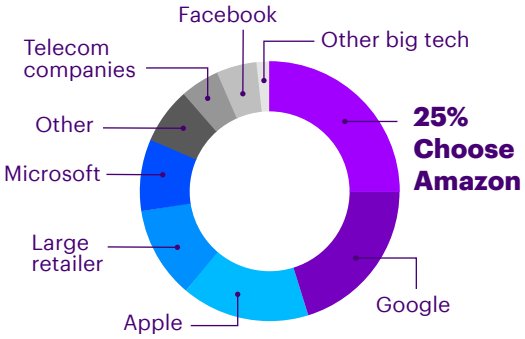
In a recent Accenture survey, half of consumers considering switching financial services providers were interested in big tech companies as an option.[45] These consumers rated Amazon as their number one choice for an alternative provider across banking, insurance, and wealth management. The main reason for Amazon's high ranking was that consumers already use Amazon often in their lives.[46]

Consumers even chose interacting with big technology companies for their financial services needs over other potential providers in non-traditional industries (e.g. retail, telecommunication), with the main reason being convenience.[47] Big tech companies are already so ingrained in consumers' lives that adding an additional product, such as a financial service, only adds to its convenience. This further demonstrates that consumers seek companies that embrace digital technology and invest in the creation of seamless experiences. A quarter of consumers say it is one of the most important factors for staying with their current insurance or banking provider.[48]

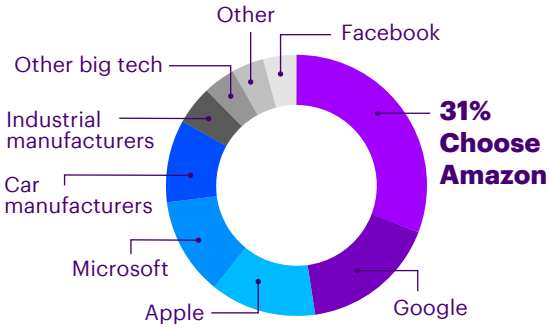
Big Tech is defined as large technology platforms (e.g. Amazon, Facebook, Apple, Google, PayPal) that have disrupted their industries, with the potential to disrupt other industries

50% of consumers considering switching financial services providers are interested in big tech companies as an option

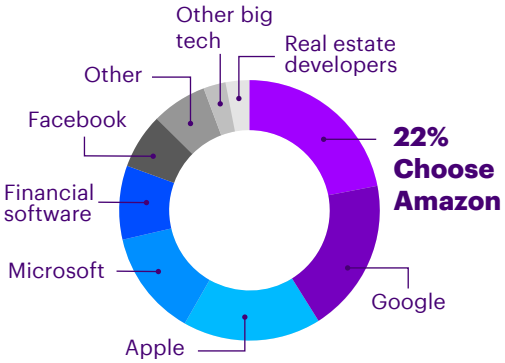
FIGURE 2:
CONSUMER TOP CHOICES FOR NON-TRADITIONAL FINANCIAL SERVICES PROVIDERS[49]



Banking



Insurance



Wealth Management

Top reasons for considering non-traditional companies:

1. I already use this company often
2. I trust this provider
3. They have great partnerships with other companies/services that create value for me

Leading big tech companies are well positioned to become direct competitors to financial institutions, if the right motivations are set in place.

Several non-traditional competitors have begun to enter financial services markets. They may even have a leg up in certain sub-sectors thanks to their extensive network of consumers. Since debuting its Amazon Lending service, Amazon has lent more than $3B in small-business loans to its network of retailers.[50] In addition, Amazon Cash which launched in 2017, allows the company to take cash deposits from consumers at dozens of retail locations, including 7 Eleven, CVS, GameStop, and Coinstar.[51] With that service, Amazon is now a place for anyone, even the unbanked, to save and use their money.

Amazon does not need to stop there. Amazon has already entered the neighborhood security market with Amazon Ring and are expanding their smart home presence through a partnership with Lennar. Within insurance, Amazon could even leverage its ecosystem of connected devices to create sensor-enabled, personalized insurance policies. Given the right incentive, Amazon's entrance into lending and payments could be the advent of a larger financial services offering.

Given the impact of such a move, it is worth asking, would a big technology company truly seek to become a retail bank? The answer is unclear. Companies, such as Walmart, have tried and failed to secure a banking license in the past.[52] However, Walmart has worked around that by partnering with GoBank to offer their banking service, GreenDot, to their significant consumer base and has experienced success.

By setting its sights on the distribution side of financial services, a non-traditional competitor could make or break a financial institution by providing them with access to a whole ecosystem of customers they would not have had otherwise been able to engage. If a big tech company enters into a distribution partnership with a certain financial institution, all other financial institutions could be at a disadvantage.

These are only some examples of how big tech companies are positioned to move into the financial services space. Financial services institutions need to begin preparing for this inevitability now. To combat these new entrants, traditional financial institutions need to take strides to aggressively develop convenient products, personalized marketing, and loyalty campaigns that keep their brand within consumers' sights.

EVOLVING ECOSYSTEMS

A POTENTIAL FUTURE

To thrive in 2019 and beyond, U.S. financial services companies will need to integrate with the technology ecosystem and compete voraciously for tech talent, partners, and complementary acquisitions.

One of the main reasons Sophia chose a big tech company for her financial services needs was to gain access to its robust ecosystem and partner network. By partnering with multiple companies across the customer journey spectrum, Sophia's insurance provider could offer her more customer-centric care than any single company could.

Financial services institutions need to know and establish their place in an ever-growing ecosystem and ensure that their consumers are aware of these new forms of interaction (e.g. 3rd party partnerships, applications, and services).

Leading financial services companies understand that adopting an ecosystem model is critical to continual success in a market where consumers are increasingly demanding technology integration throughout the journey. Application Program Interfaces (APIs) are a critical component of any ecosystem as they allow partners within the ecosystem to interface with each other. In fact, 70% of bankers agree that their organization's API strategy is instrumental to their brand and performance.[53]

An API strategy is just one way in which expanding relationships and developing partnerships outside of the traditional financial services ecosystem will be critical. Over 60% of financial institutions recognize the need to integrate with initiatives like open banking to compete, cooperate, and/or partner with fintech and big tech players.[54] Consumers similarly recognize its importance by actively seeking out companies with strong partnerships.[55] Specifically in wealth management, about 40% of consumers agree or strongly agree that they want partnerships that would enable their financial provider to integrate more gamification and education platforms in their user experience.[56]

Institutions that fail to actively forge their place in their ecosystem will risk losing market share to digitally driven financial service leaders, fintech companies, and emerging big tech competitors.

The investments financial services companies make in technology and fintech will become primary drivers for attracting and retaining consumers.

Financial institutions are already realizing the implications of missing the digital ecosystem train and have started to significantly increase their investments.

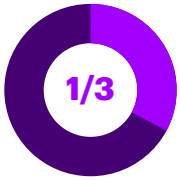
One example is Erie Insurance's partnership with Roost. Roost is a leader in Home Telematics that offers products for monitoring the smart home. Erie insurance is piloting a program using Roost's Smart Water Leak and Freeze detector systems to assess its impact on customer engagement and water damage claims. Water damage claims were the second most frequent claim in 2016, costing homeowners on average almost $10,000.[57] Both companies are hoping the partnership will be able to help reduce the number of claims and improve customer satisfaction.

Starting to partner with fintech companies is a step in the right direction, but the industry as a whole is behind, with less than a third of banking (23%) and insurance companies (33%) taking active steps to become digital ecosystem leaders.[58] One likely cause is the large bureaucratic undertaking involved in this type of transformation. Over 70% of bankers cite corporate bureaucracies as stifling productivity and innovation.[59]

Financial institutions must also reevaluate their operating model and company culture to remain competitive and relevant. Without the internal ability to absorb and manage these new business models, companies will not be able to realize the benefits of investing in and collaborating with innovative technologies. When asking bankers about the benefits of participating in digital ecosystems, they listed improved consumer satisfaction, increased agility in developing solutions, and increased access to new consumers as top choices.[60] Digitally leading banks can increase revenue at least 30% by 2022 through a hyper-relevant model enabled by ecosystem touchpoints.[61]

Consumers are expecting these pervasive, seamless ecosystems to support their financial service experiences. Therefore, to thrive, financial institutions need to actively forge their place in their ecosystem or risk losing market share to digitally-driven financial service leaders, fintech companies, and big tech competitors.

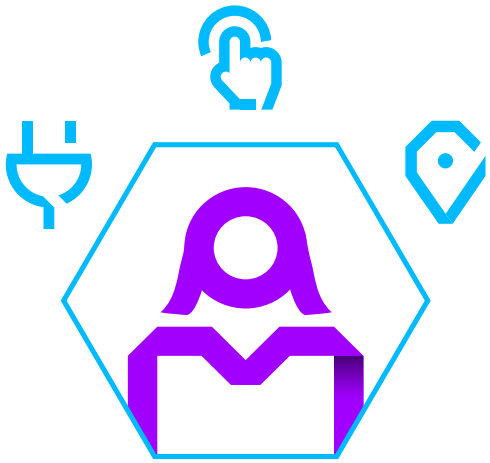
Less than



of banking and insurance companies are taking active steps to become a digital ecosystem leader

Top benefits of participating in a digital ecosystem:

1. Improved customer **satisfaction**
2. Increased **agility** in developing solutions
3. Increased **access** to new consumers



TRANSITIONING TO HYPER-RELEVANCE

A POTENTIAL FUTURE

By 2020, consumer demand for hyper-relevant experiences will increase the number of financial services providers a consumer touches, putting a customer's lifetime value for any one provider at risk.

Ecosystems increase the number of touchpoints a company has with customers, giving companies the ability to better understand their customer journeys and deliver hyper-relevant experiences. By applying advanced analytics to a wealth of data, Sophia's insurance provider offered her personalized services and timely recommendations. In the future, such a tailored and hyper-relevant customer experience will be the expectation and companies that fail to meet these expectations will likely lose favor with consumers.

EXAMPLE OF HYPER RELEVANCE

NOW: Today, many companies have already begun to pivot towards providing hyper-relevant customer solutions. One example is the app "The Points Guy To Go," which is designed to maximize credit card points and rewards. In the app, users enter which credit cards they have. Then the app uses location data to recommend which credit card to use while checking out to get the most rewards.

THE FUTURE: To see what hyper-relevance looks like in the future, let us go back to Sophia's story. Let us imagine that the sensors in her home detect another pipe that is starting to leak and that this time, Sophia and her partner are on vacation overseas. Her insurance company sends an urgent alert to her smartphone. However, the provider knows from her location that she is out of town, so they proactively offer to have a trusted plumber come to her house, assess the situation, and make any repairs. Because her insurance provider partners with a home security provider, the plumber can be let in through her home's smart locks, and her insurance provider can guarantee that her house and belongings will be safe. Sophia can now rest easy knowing that she will not come home to a flooded house.

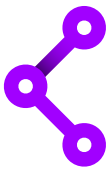
The search for more personalized products and services has led consumers to consider more brands than ever before.[62] Accenture calls this increase in consumer willingness to switch providers in search of better service, "the switching economy." A recent survey found that a significant number of consumers are split across providers and subsectors. Each new provider a consumer adds produces a significant dilution of any one provider's share of customer lifetime value.

Even traditional loyalty programs aimed at increasing customer retention have not proven effective. Less than one third of consumers participate in a financial services loyalty program.[63] Even in banking, the sub-sector with the highest participation, efficiency of loyalty programs has remained around 56%.[64] Additionally, over 71% of consumers across industries claim that incentive programs do not influence their loyalty.[65]

Does this mean loyalty is dead? No. Financial providers can retain their consumers by delivering on the top reasons U.S. consumers stick with their current financial providers: trust, security, and customer service.[66] They simply need to transition to being promise-focused, and clearly communicate this through timely and targeted marketing campaigns with data-driven insights.

40% of global financial services consumers have either switched providers entirely or added a new provider across banking and insurance[67]

Access to consumer data is a privilege that needs to be earned by delivering greater personalization.



Currently, over 65% of U.S. financial services consumers say that sharing data should deliver personalized advice around products and services.[68]

These demands do not come as a surprise to the companies that serve them, but their responses need to come more urgently. Even though 70% of global CEOs acknowledge the need for more meaningful products, services, and experiences,[69] they are failing to deliver. Only 22% of global consumers feel companies tailor their experiences based on a deep understanding of their needs, preferences, and past interactions.[70]

This gap in expectation will become especially concerning for financial services companies as big tech begins to enter the space. When asking consumers how their financial service provider could better tailor their interactions, more than half of consumers responded with better recommendations based upon their life stages or careers as their top choice.[71] Traditional institutions already sit upon a pile of customer data pertaining to financial usage and preferences. They must strengthen their access point network and analytical muscles to generate actionable insights before big tech companies go from selling ads to suggesting their own financial services products. Financial services companies need to act quickly, provide hyper-relevant experiences, and protect their customer lifetime value.

NEW PRODUCTS AND SERVICES

A POTENTIAL FUTURE

An explosion of new products and services within the financial services industry will generate significant revenue opportunities, with non-traditional providers capturing more than 40% of these by 2022.

As Sophia entered a new stage in her life, her financial advisory needs evolved. She chose to interact with a new wealth management model incorporating both innovative technology and human advisory services. Moving forward, new products and services will continually be created to meet the opportunities generated by technological innovation and changing consumer preferences.

Within banking, the rise of tech-driven alternative lending models continues to create new avenues for consumers to fulfill their financial services needs.

Today, almost 69% of customers planning on purchasing a new banking product are considering buying from an alternative bank or lending provider.[72] This translates to a double-digit growth rate in alternative lending with an estimated transaction value of $978 billion by 2022.[73] The Lending Club, a peer-to-peer lending company initially created as an app on Facebook, has lent over $26B since 2007, clearly fulfilling lending needs for many consumers that traditional banks are not meeting.[74]

Additionally, as preferences for lightning fast transactions push consumers away from traditional forms of payments, such as checks, wires, and money orders, there has been overwhelming increase in demand for peer-to-peer payment options, such as Venmo. Currently, 66% of U.S. consumers say it would be useful if their bank provided peer-to-peer payments.[75] As consumers become more familiar and comfortable with this form of payment, the number of users and transaction volumes are expected to increase significantly: as soon as 2021, peer-to-peer transactions value is predicted to reach over $244 billion.[76]

The increase in demand has made consumer lending and payments the largest areas of fintech investment, accounting for over 60% of total US fintech investment ($11.3B) in 2017.[77] The popularity of alternative lending and payment platforms indicates that they are clearly serving an unmet consumer need that competitors are moving quickly to serve. Although banks reacted to peer-to-peer payments with Zelle, they will need to move in lending as well, or risk losing mind and market share.

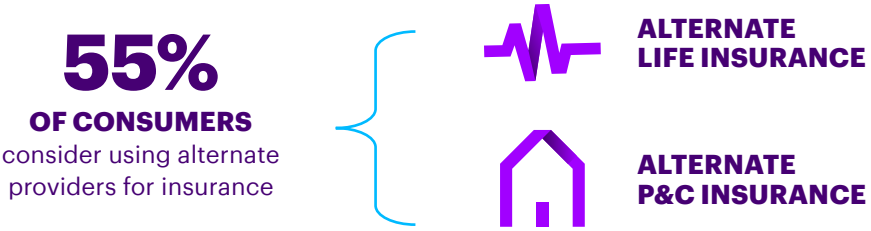
Like banking, insurance is being disrupted by IoT, new technology, and novel business models that have created opportunities in the insurance sector that InsurTechs and incumbents are trying to meet.

In North America, digital innovation is estimated to create over $129 billion in insurance revenue growth from the creation of new insurance markets and the opportunity to penetrate historically difficult-to-reach customer segments.[78]

One new insurance market is rising from the growth of new economies, such as the "gig" economy and the sharing economy. The "gig" economy represents the portion of the workforce comprised of freelancers and independent short-term contractors. By 2020, 43% of the workforce is expected to work on a freelance basis.[79] The significant increase in freelance (gig) workers and their need for insurance is a new opportunity for insurers. New entrants, such as Bunker, are capitalizing on this opportunity by providing short-term insurance policies specifically for freelance workers and the companies that employ them.

Another new insurance market is tied to the intersection of sensors and insurance. With the advent of the internet of things and the ability to collect large amounts of data, insurers can create value-based products that are tailored to individuals. More than 55% of customers planning to buy insurance products are open to considering products from an alternative provider or new insurance startup like Metromile.[80] Additionally, U.S. consumers demonstrate an appetite for other opportunities for customized insurance products, including wearables for life insurance and connected sensors for home insurance.

Both new insurance markets are examples of how technology can provide more customized products to meet evolving consumer demands and penetrate financial services segments that have been historically difficult to insure.[81] In life insurance, traditional agent business models tend to serve more affluent households. Digitization and new direct to consumer (D2C) business models are now making the 52 million middle market households in America with no life insurance suddenly accessible.[82] Similarly, small ticket insurance represents an emerging market as insurers use data and AI to better de-risk and deliver large volume, small premium, basic-benefit coverages.[83] These opportunities have not gone unnoticed. In 2016 Global InsurTech investment totaled $1.6 billion, almost doubling the value and volume of deals from 2014.[84] Once again, traditional insurance agencies are going to have meet these new opportunities head on by developing and marketing their own new capabilities.



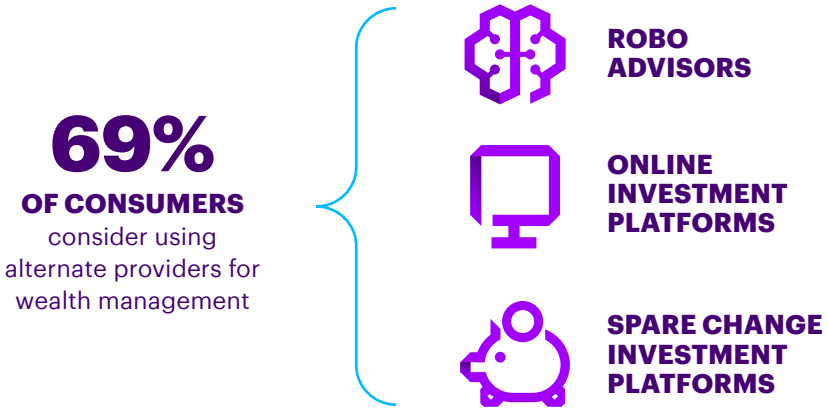
In wealth management, changing consumer preferences and increasing comfort with technology are driving new business models.

With the plethora of information available online, investors, especially those belonging to younger demographics, demonstrate a desire for self-reliance in their finances, and a belief that they can do it better. Over 40% of consumers who are looking to buy stocks or wealth advisory services are considering online-only investment platforms.[85] Additionally, consumers are becoming increasingly comfortable with robo-advisors and machine-managed investment, with robo-advisors forecasted to reach over $16 trillion, or 10% of total assets under management by 2025.[86]

While customers are growing more comfortable with these automated tools, many still want a personal touch. Taken together, many consumers would like the best of both worlds: technology and human interaction—a "hybrid model." To meet these new consumer needs, financial services companies will need to provide a hybrid model with a digital platform, more autonomous options, and access to both a smart assistant and a human advisor.

Hybrid advice is now preferred by over two thirds of US emerging wealthy and high net worth investors, representing a large growth opportunity.[87] Hybrid model investors may also be worth more to wealth management companies, as they are significantly more likely to seek out and receive advice regarding financial planning from their providers than investors in any other model.[88] The hybrid model allows companies to provide innovative new business models, fee structures, and products that are tailored to individual investors. These options increase personalization, help consumers control cost, and grow transparency—all of which are important to consumers. Wealth management companies need to consider both adopting this increasingly popular model and creating unique marketing campaigns centered around a holistic approach to wealth management.

The popularity of robo-advisors is a wakeup call for the wealth management industry. It provides a new model for investing that is more inclusive and cheaper than ever before, alongside InsurTech and P2P lending. Traditional financial institutions must reassess their business models in light of these new technologies or risk being left behind.



A BLUEPRINT FOR SERVING SOPHIA

There are several steps traditional financial institutions can take to better serve a customer like Sophia.

1 Transition to Customer-Centric Hyper-Relevance

Hyper-relevance is a step beyond personalization, where companies deliver intelligently personalized services for every individual consumer, *at the right time and place*. It requires leveraging data, predictive, analytics, AI, and machine learning to intimately understand and react to changing customer journeys.

The first step to achieving hyper-relevance is gaining a deep understanding of customers by building a "Customer Genome." Accenture developed the customer genome and uses it as a new way of understanding customers to better serve each unique profile.[89] It is based on the idea that companies succeed when they cater to the individual customer and make it easier for them to consume what they want, how and when they want it.

To create a genome, companies must consolidate customer interactions into a living profile. These living profiles help create experiences that anticipate and fulfill an individual's future needs across all personalization platforms—recommendation engines, DMPs, rules engines, campaign management platforms, and experience optimization tools. Under the Customer Genome Model, companies must transition from a campaign or platform-centric model to a customer-centric model. True personalization is not knowing WHAT choices customers make, it's understanding WHY they make them. Developing the capabilities to create a customer genome today will help companies prepare to deliver unparalleled experiences to the consumers of tomorrow.

Armed with a deep understanding of their customers, companies can then further transition to customer-centric hyper-relevance by increasing touchpoints across every stage of the customer journey. Additional touchpoints equate to more opportunities to use data, real-time predictive analytics, AI, and machine learning to personalize each consumer's journey. Using these principles, it is imperative to look beyond the traditional customer journey to preempt the foreseeable: this is where companies deliver the most value and relevance to their customers.[90]

Lastly, hyper-relevance is not just a marketing activity. Financial services marketing professionals must work in parallel with product strategists to develop products that are hyper-relevant. It is within product design that a pervasive, all-knowing data architecture can house living profiles and that the right touchpoints can be incentivized to gather the data necessary to make market recommendations. It is also within this stage that companies must unfailingly put data security first and generate continued trust.

In creating hyper-relevant services, businesses need to place a keen eye and attention at the highest corporate levels to cybersecurity and privacy. Cybersecurity, and security of consumers' data is central to consumer trust and loyalty. With the introduction of alternatives into the financial services market and the ability for customers to transfer services easily, cybersecurity and a company's resilience to data breaches helps to attract and maintain

consumer confidence. Similarly, with the vast collection of personal data needed to enable hyper-relevance, companies need to provide sufficient transparency and choice to ensure their customers are comfortable with their level of enrollment and participation in services that harvest their information. While Sophia is willing to trade her personal information for more products and services, she also expects to have the ability to control her information. Without trust, marketing will not be as effective.

A comprehensive shift to hyper-relevance will allow messaging to be delivered in real time, through the right channels at the relevant moments. Both consumer adoption and institutional investment are pointing towards a future where channels such as digital assistants, chatbots, and video are possibilities through which to deliver the right messaging and value to consumers before they even start looking for them.

2 Define a Business Model Canvas for Sophia and other Emerging Consumers

Disruption is coming for the financial services industry. The first step to prevent falling behind is to create a Value Proposition Canvas. A Value Proposition Canvas analyzes what "jobs need to be done" from a customer perspective and the pains and gains associated with those jobs. A company can then look at what products and services can be designed to alleviate those pains and create additional gains. It is important that the value proposition of a company's products and services match the customer persona and their corresponding jobs to be done.

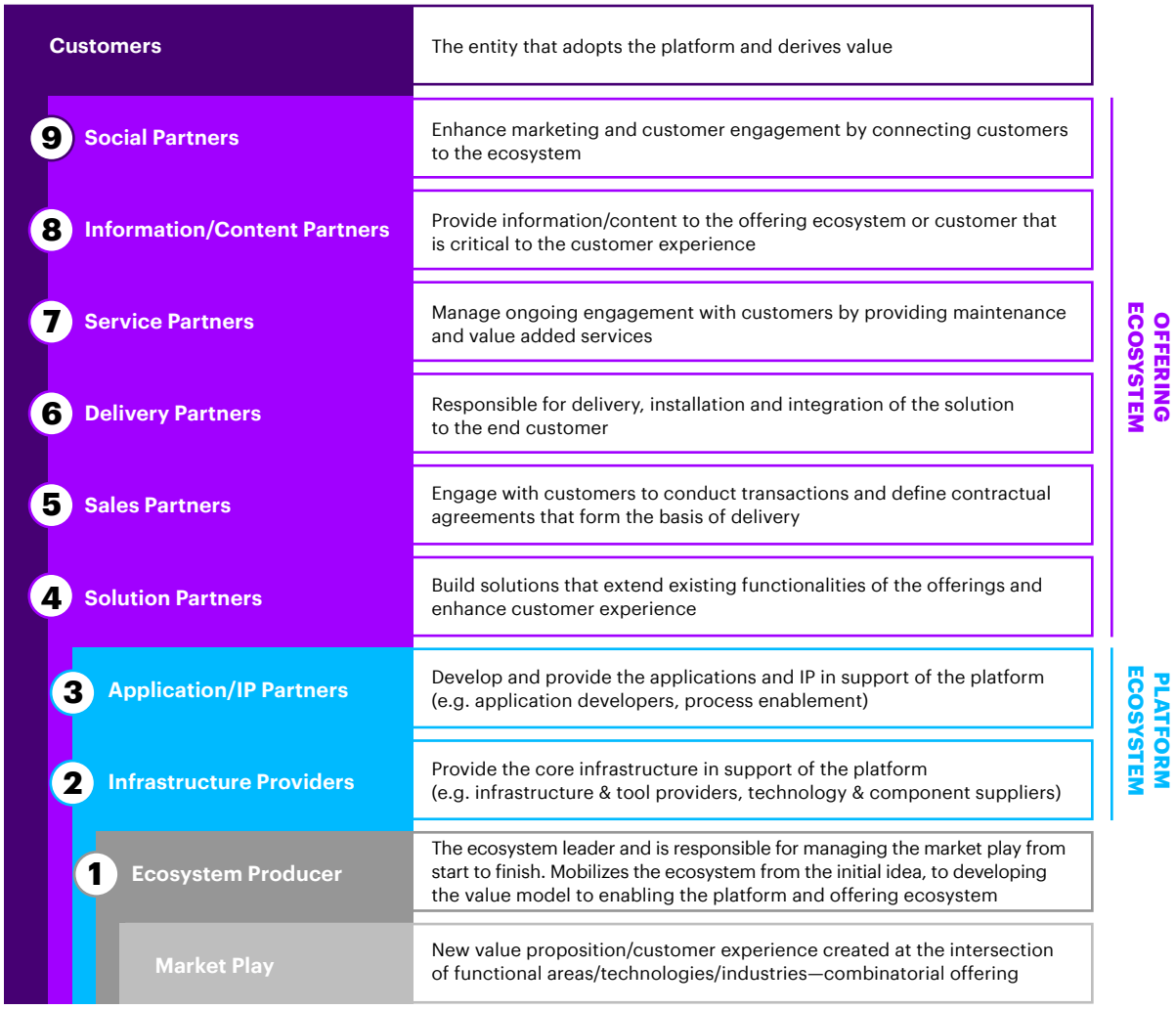
Once the value propositions are clearly defined, a company can use the Business Model Canvas to address financial feasibility and create the necessary operating model and customer experience to deliver that value. Key questions to answer include: Who are the company's key customer segments? What are the key activities, resources, and partners the company needs to enable their operating model? What revenue streams and cost centers make their business model financially feasible? This assessment will help companies choose the strategy to best serve Sophia and other emerging financial services consumers.

Accenture's "Winning in the Digital Economy," for example, outlines four potential strategies and archetypal business models for banks to adopt in the digital future. Each model is based on two factors: the breadth of offerings a bank provides its customers, and the bank's participation in the value chain. Depending on the bank's current products, services, customers, brand, and operations, one strategy and business model may be better than another. To compete in the digital future, financial services companies will have to define their strategy now.

3 Choose Your Spot in Sophia's Ecosystem

Financial service providers must look beyond themselves to deliver hyper-relevant experiences throughout the customer journey. This involves building a robust ecosystem of partners to increase touchpoints with customers and reach them throughout their journey. To do this, a company must first understand and outline a strategy for which ecosystems the company wants to participate in and how they participate. Accenture's point of view is that within any ecosystem, there are nine distinct roles that a company can choose to play that fall within three major categories: ecosystem producer, platform ecosystem, and offering ecosystem (Figure 4). Companies must define their role in the ecosystem, move up the ecosystem continuum from participant to leader, and partner vertically to deliver innovative and targeted solutions to be successful. Since an ecosystem depends on robust partnerships, choosing partners wisely is critical.

FIGURE 4: YOUR ROLE IN THE ECOSYSTEM[92]



One important tactical strategy is to assess if a company's current API capabilities are sufficient to make these partnerships feasible. If not, they will have to adjust their API strategy to accelerate capability development. Companies can do this by prioritizing areas that generate the most value through partnerships, and by looking to split their technology architectures into microservices to allow for faster change.[91]

With an established ecosystem, companies have access to and can explore new touchpoints within the customer journey, and how those touchpoints can be leveraged. It is up to marketing to intimately understand each customer segment and what products or services can be delivered during specific points in their journey. The financial services companies that invest in their ecosystem today will be the leaders of tomorrow.

4 Be like Next Gen Tech

In order to compete with technology companies, financial institutions must begin acting like technology companies. Financial service institutions should ask themselves, "Do I have the right technology, talent, and company culture to become the agile, integrated financial services technology company of the future?" The answer will likely point to a gap between today's people, processes, and technology, and those that are needed. This means that financial services institutions must invest internally to commit to building the necessary new capabilities.

First, companies must transition to an agile operating structure. In the era of hyper-relevance, companies that cannot adapt on-the-go to changing consumer needs are bound to fall behind. An agile operating structure is needed to provide the right capabilities at the right time. Additionally, companies are going to have to embrace a culture of innovation. To make this happen, key investments must be made, including adopting an operating model that supports the company's new strategy, embracing innovative new capabilities such as design thinking and experimentation, and fostering a cultural mindset that supports these shifts.

Changes in business strategy will need to be executed quickly to keep pace with the industry's evolution and legacy technology systems can prohibit companies from moving as fast as they should. To address this, financial services companies will have to digitally decouple. Digital decoupling involves using new technologies, such as the cloud, robotic process automation, APIs, micro-services and data lake-centric architecture to reduce a company's dependency on legacy systems and help them embrace agility and innovation.

Self-investment will ensure that these companies are well positioned to meet the industry changes that are coming.

5 Do it Yesterday

Although each sub-sector within financial services is experiencing its own level of disruption, they all share the imperative to act now. Accenture's "Making the Leap to Next Generation Technology," outlines this need and demonstrates how change must come from the top, with leaders investing big, driving innovation, and creating a culture that is supportive and results-driven.

Big tech companies and fintech companies are primed to move into the financial services space and capture market share. Even if regulations prevent many companies from becoming full-fledged banks, insurers, or wealth management advisors, financial services companies must remain vigilant. Allowing competitors to take over distribution and thereby brand recognition is the first step to allowing competitors to choose their place in the ecosystem.

The preferences, values, and motivations of tomorrow's consumers are not a mystery. Like Sophia, they will be digitally-savvy, value innovation and convenience, and search for personalized financial services products and services. With these facts in mind, existing financial services institutions can begin to leverage their current competitive advantages—an expansive, global customer base, access to capital, brand recognition and government-backed trust—to grow the capabilities necessary to embrace the emerging consumers of tomorrow.

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