

The five key battlegrounds in financial services

Fintech vs Big Tech vs Incumbents



Summary

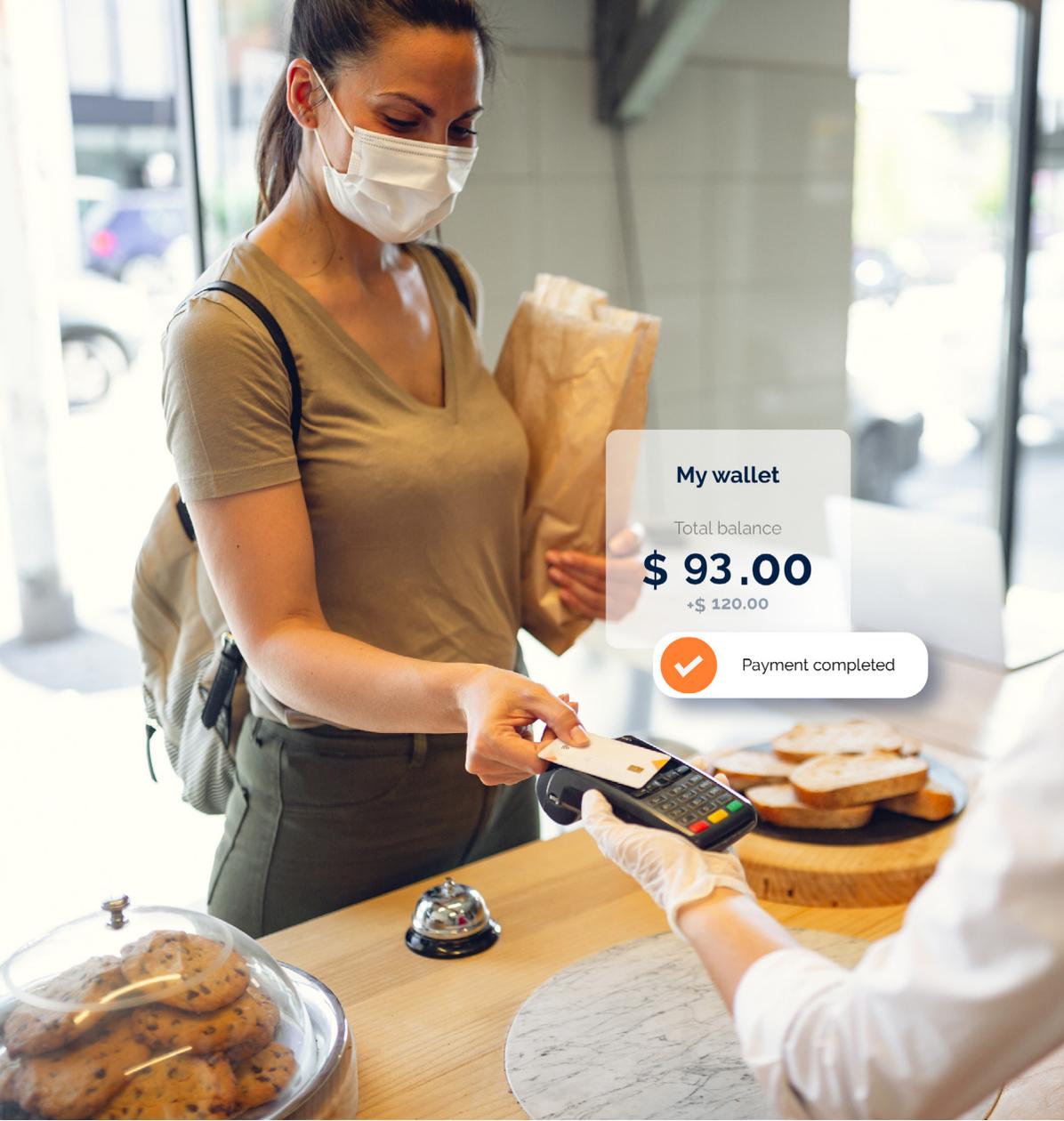
Covid has accelerated the shift to digital in the financial services industry.

Conventional wisdom has it that fintech and big tech will be the big winners in this new normal. Many believe that these tech-driven entrants will own the high-value segments (customer acquisition and engagement) and the incumbents will be left holding the low-value segments (back-office) and risks (balance sheet).

We believe that it is too early to declare winners or losers. And that five key battlegrounds will determine who wins.

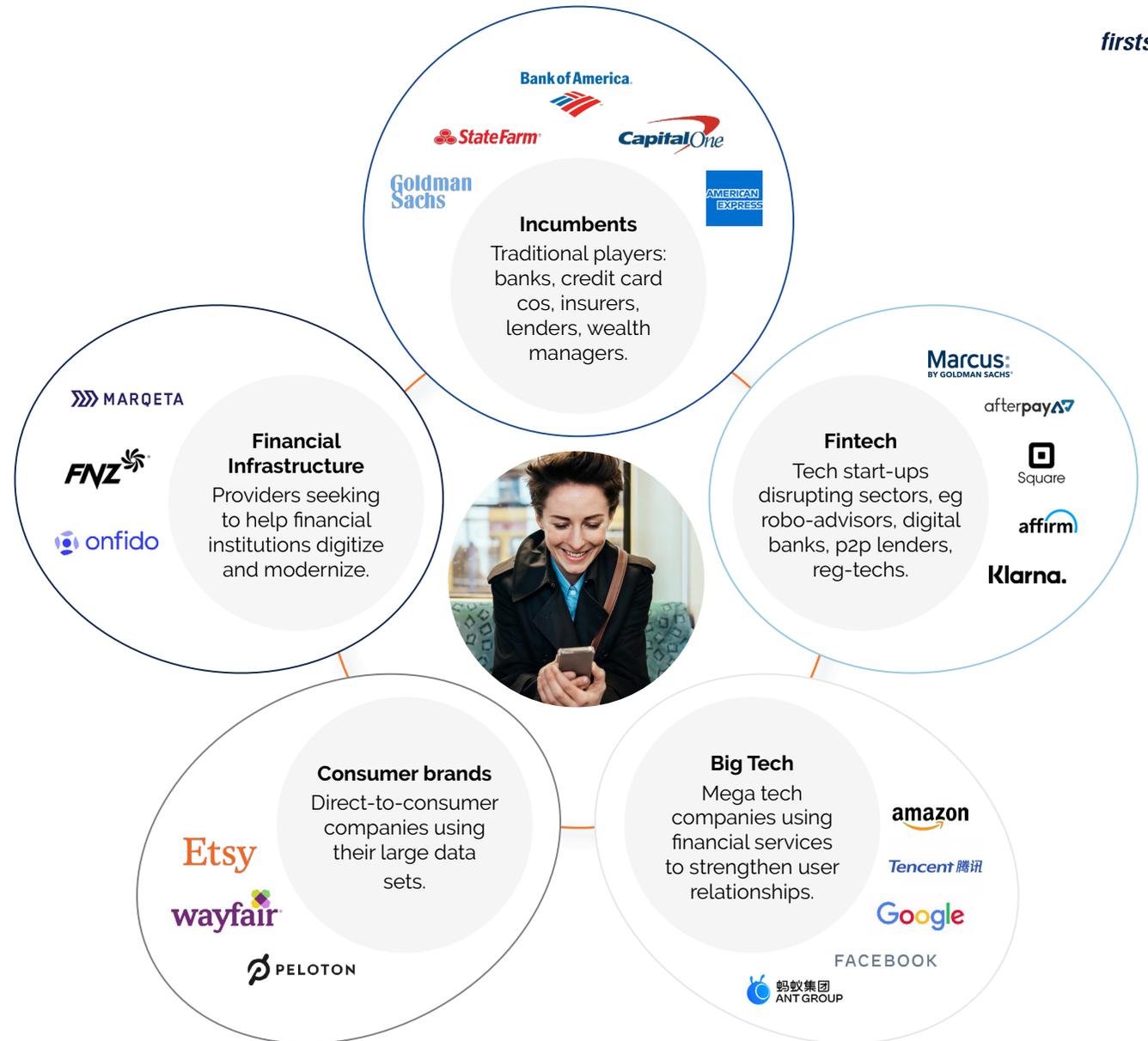
In our opinion, winners will collaborate across the ecosystem, provide tangible value through customer centric products and services and navigate the future by continually adapting their business models. And that while fintech and big tech seem to have an edge, don't count the incumbents out.

In this report, we explain the key battlegrounds, where opportunities lie for different players, and how Firstsource can help.



Financial services industry players

The competitive turmoil in financial services is at its peak in history. Well-funded fintech, consumer brands, and big tech companies are challenging traditional incumbents at a scale never before seen.



Covid has accelerated the shift to digital

The pandemic has changed the way customers interact with money. As a result of lockdown, consumers have:

Accelerated their use of digital channels:

- 35% of consumers increased their use of online banking in US
- Age 50+ users in particular increased usage of digital features they always had but didn't use

Accelerated the shift from cash to contactless:

- Visa reported 40% YOY growth in tap and pay in April 2020

This has created a next normal for businesses, as the pandemic highlighted the needs for:

- Speed and simplicity for digital engagements with customers
- Agility to adapt to change as predicting the future is so hard

Businesses have already taken on board these lessons. Large US banks told to disburse PPP loans on a Friday were able to start doing so the following Monday – unthinkable in the pre-covid era.



“ We’ve seen two years’ worth of digital transformation in two months.”

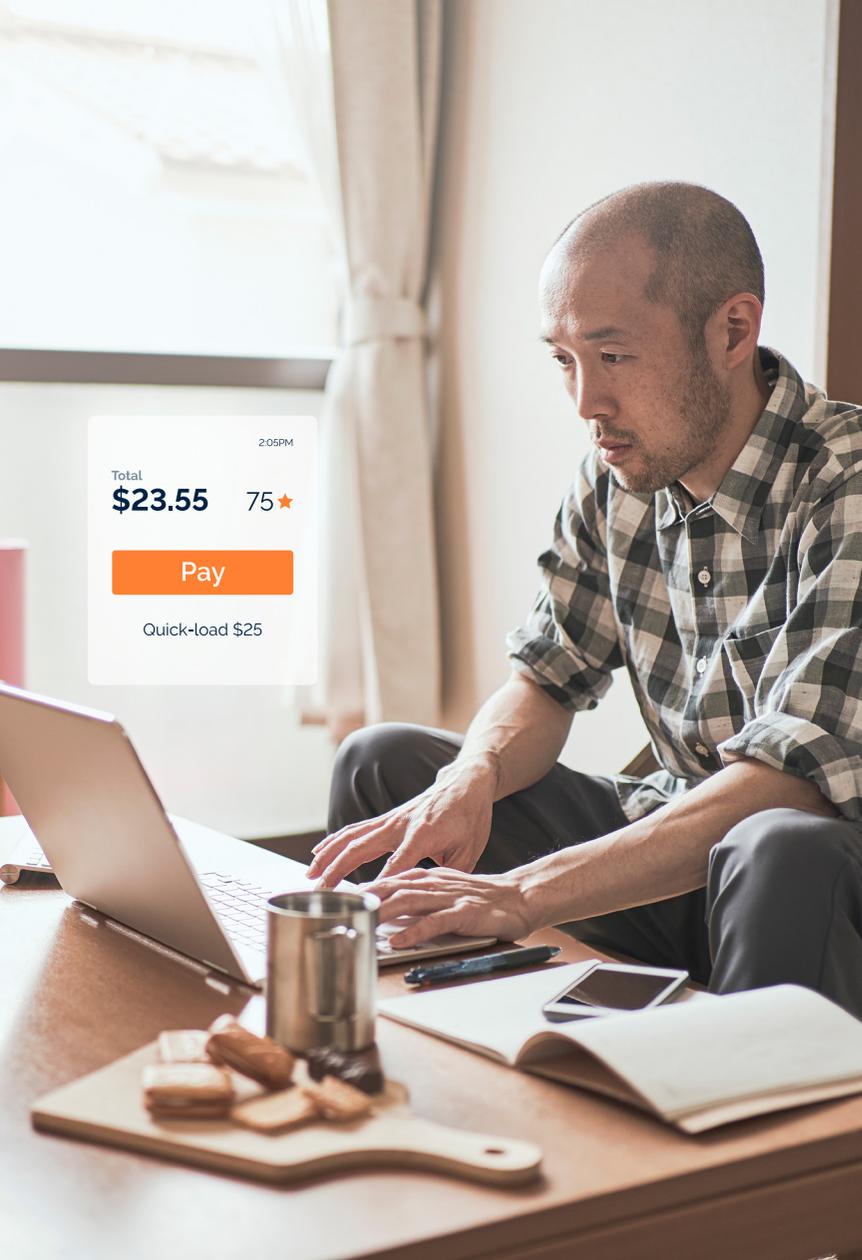
- Satya Nadella, CEO, Microsoft

Post-Covid recovery shows that fintech and big tech are expected to do better

Wall Street seems to indicate that due to their technological superiority, agile business models and customer growth, fintech and big tech will be clear winners at the cost of incumbents.

The change in the stock valuations is a clear indicator of market expectations from incumbents versus the tech-driven digital players.

While this may seem correct in the short term, we believe that how various players perform in five key battlegrounds will determine the winners.



Fintech performance vs Dow Jones Financial Services



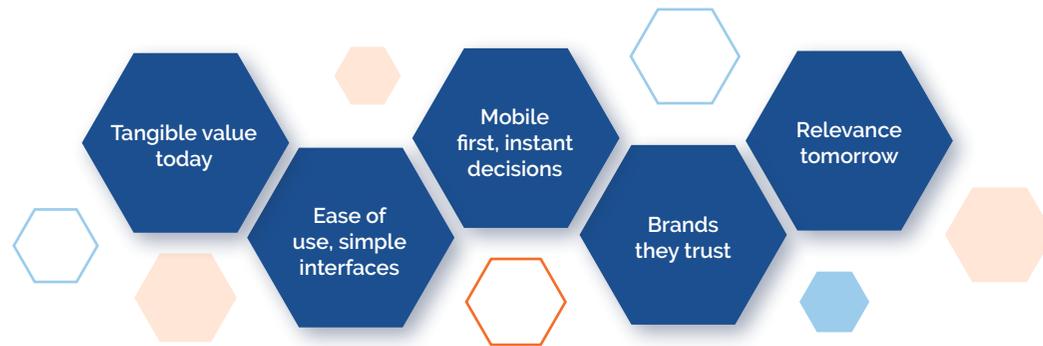
— Global X Fintech ETF (FINX)

— DJ US Financials Index (DJUSFV)

X Market Cap divergence between Fintech and Incumbents from Jan 2019 baseline

Customer expectations provide the foundation for battlegrounds

We see five fundamental expectations that customers in every financial services sector will reward:



What customers will reward

Tangible value today: through products and services that make cumbersome tasks easier, give users a feeling of control and offer a clearer picture of their finances.

Ease of use: with clean, intuitive interfaces, simple navigation and clear processes for all queries.

Mobile-first, instant decisions: with fast and responsive service on device of their choice, enabling instant action and decisions.

Brands they trust: not just with their money but also with their personal and behavioral data.

Relevance tomorrow: with new and inventive solutions that demonstrate proactive action and predictive insight, services ready to support customer through challenges before any problems arise.

Five key battlegrounds are the core capabilities that players need to win in the marketplace

What players need to win



What customers will reward

Varied customer needs will call for different solutions. Yet to win in each of these battle ground, this is what's required:

The need for Tangible value today calls for **Customer-centric products and services** which can be developed through the buy, build or partner strategies.

The Ease of use goes beyond simple interfaces – here the players will need to deliver a **Superior customer experience** that spans processes, products and fees, making customers life easier. Customers need to be able to navigate experiences within the various digital channels and with physical banking seamlessly.

True Mobile and Digital Access will leverage disruption and **Continual technology innovation**, especially ABCD: AI, Blockchain, Cloud and (Big) Data to deliver instant decisions and contactless services.

To build Trust players must strictly adhere to country **Regulations with robust compliance and security** to deliver safety across all transactions.

Relevance tomorrow can be achieved through different tactics, yet one thing will remain constant - needing to continually **Adapt business model to navigate market expansion**. Pivoting is key to staying relevant to changing needs of customers , e.g. “buy now, pay later” models.



Fintech and big tech will need to expand beyond their initial offering and adapt their business model to serve customers better and deliver tangible financial value

So far, the focus has been on creating single-purpose solutions designed to offer an improved experience within just one product or service. This has been led by small firms founded with a culture of innovation.

But to sustain and grow it is not enough to just acquire customers. The solutions must a) be profitable ventures with revenue generating customers, and b) serve the spectrum of needs their clients face – offering more product choices so customer relationships become sticky.

However, with expansion come new challenges. How to maintain initial competitive advantages – simple user interface, task simplicity, value-added reporting – in the new segment while cross-selling and avoiding looking like an established player with disjointed CX and product inconsistencies.

Source: CBInsights

| First Beachhead | Student loans | Robo-Advisor | Micro-Investing | Brokerage | Personal Finance | Crypto |
|-----------------|-----------------------|----------------------|--|----------------------|-----------------------|-----------------------------|
| | | | | | | |
| Next Pillar | Wealth Management | College Savings | Wealth Management | Crypto | Wealth Management | Wealth Management |
| | Brokerage | Lending | Fractional & Card Linked Investing | Margin Investing | Lending | Institutional Investing |
| | Bank Accounts | Savings Accounts | Bank Accounts | Bank Accounts | Bank Accounts | Debit Cards |



Incumbents present a broad set of offerings to serve customers but they have work to do on customer experience

Incumbents retain an edge by growing product and service portfolios through partnerships, such as the Goldman Sachs and Apple card launch, and acquisitions such as Morgan Stanley purchase of Etrade.

But they are falling behind and need to catch up on newer areas, e.g. crypto and robo-advisors.

More importantly, legacy infrastructure and physical retail presence is making it difficult for incumbents to provide a seamless digital-first experience.

The typical consideration set for buyers always includes the large players when it comes to products but there may be brand dissonance between the challenger brand and the parent institution. Still they have a lot to offer to cover the varied needs of their customer base.

Source: Company websites, some cases product offered through partners

Where decades of product expansion takes companies

| | JPMC | BOFA | Goldman Sachs | Citi | PNC | Discover | Vanguard | Northern Trust | Capital One | Ally |
|----------------|------|------|---------------|------|-----|----------|----------|----------------|-------------|------|
| Checking | X | X | X | X | X | X | | X | X | X |
| Credit cards | X | X | X | X | X | X | | | X | X |
| Personal loans | X | X | X | X | X | X | | | X | X |
| Home loans | X | X | X | X | X | X | | | | X |
| Savings | X | X | X | X | X | X | X | X | X | X |
| Mutual funds | X | X | X | X | X | | X | X | | X |
| Brokerage | X | X | X | X | X | | X | X | X | X |
| Private client | X | X | X | X | X | | X | X | | |
| IRAs | X | X | X | X | X | X | X | X | X | X |



While fintech and big tech lead in customer experience, we see significant effort and investment from incumbents in this area

As fast followers, incumbents have either launched new brands or partnering with others, or adopting technologies to enhance services and improve customer experience and grow market share.

| Fintechs and Big Tech | | Incumbents | |
|--|--|---|---|
| <p>Buy now pay later – online credit made easy</p> | <p>Online payments made easy</p> | <p>Buy now pay later – online credit made easy</p> | <p>Robo technologies + Human advisors deliver a seamless investing experience</p> |
| <p>Investing made easy with Roboadvisor</p> | <p>Cheap and reliable insurance within seconds</p> | <p>Small business loans made simple – Amex buys Kabbage</p> | <p>Digital wealth platform – Goldman Sachs buys Folio</p> |



Fintech and big tech have pioneered and led the tech-driven disruptive innovation

The disruptive potential of the ABCD technologies opened the entire financial services sector to new entrants. The new entrants can design their systems and processes afresh to exploit these technologies. Which gives them opportunities to create innovative products, improve customer experience, drive down costs, scale quickly and mitigate risk. Incumbents have existing systems with layers of technology 40+ years in the making.

A

Artificial intelligence

WeBank's chatbot handles one million customer enquires a day, 98% of their total volume.

Ping An uses AI and Natural Language Processing (NLP) to detect potential "greenwashing" terminology from company disclosures, and assess climate risk impact on financial performance.

B

Blockchain

WeBank uses Blockchain technology to recall transaction history as digital evidence to resolve disputes, cutting resolution timelines down from 1 month to 7 days.

R3's Corda blockchain platform, now an enterprise software company was born out of a bank consortium of some of the largest banks in the world.

JPMorgan Chase divested from Quorum, the blockchain platform it developed but continues to use across its Blockchain initiatives on Onyx.

C

Cloud

WeBank handles hundreds of millions of transactions a day an estimated 1/20th of what it costs an incumbent using on-premise infrastructure.

Starling, a London-based challenger bank, is making banking simple with a 100 percent cloud-based banking app. This makes Starling's cost base much lower.

D

Data

WeBank applies big data insights for pre-underwriting, specialized offers to specific audiences and precise management of marketing campaigns.

Robinhood uses AI to predict the best stock market opportunities and provides its users with stock prediction packages.



Incumbents are rapidly adopting these disruptive ABCD technologies



Capital One's cloud-based intelligent assistant, Eno, deploys AI and ML, and aims to bring humanity and simplicity to banking through real-time, smart and automated customer experiences.

J.P.Morgan

JP Morgan is investing heavily in blockchain. For example, its wholesale car financing arm has created a blockchain solution to track vehicle inventory that dealers borrow against.

Goldman Sachs



Goldman Sachs and Apple launched a new credit card designed to help consumers lead a healthier financial life. It offers greater control, transparency and privacy to consumers.



Bank of America's AI-driven virtual financial assistant Erica helps customers with activities such as: transfers, bill payments and checking balances. It uses predictive analytics to make suggestions to customers.



Citigroup, Goldman Sachs and Barclays are partnering with Stripe to offer checking accounts and other services through e-commerce providers. The retailers are able to open an account and hold deposits at these established institutions.

BBVA

BBVA Open Platform offers white label financial services to third parties. It allows customers to mix and match services such as moving money or identity verification.

Incumbents are experienced in regulation, security, compliance where fintech and big tech are not fully ready



Customers continue to demand convenience, superior experience and expanded product choice, and expect these to be provided in a safe, secure and trusted manner that follows country-specific regulations.

Meeting regulatory compliance and managing system risk is not easy. Financial services players have to navigate some of the toughest and most complex regulatory environments of any sector, and they have to do this in each country.

Incumbent brands are leading with trust and knowledge built over decades. They have industry insights and over the years they've battle-tested and enhanced processes and technology-layers to withstand scale, e.g. Bank of America stress test results.

Fintech and big tech have built their business models by avoiding regulations and concentrating on the customer facing layer but as they move from monoline to multiline they are coming in the cross hairs of the regulators.

In China regulators have started clamping down on fintech and especially on big tech like Ant Group and Tencent, wanting a nation stake in these systemically important, too-big-to-fail platforms.

We believe that this is perhaps the weakest area for fintech and big tech and they will need to rapidly build capability to operate in regulated environment.

Incumbents well practice at dealing with complex regulations and multiple regulators:



While some are partnering, others are applying for banking licenses:





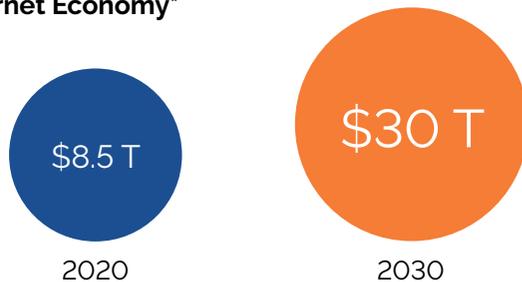
As the market expands fintech, big tech and incumbents will all need to adapt their business models

The winners will be quick to adapt their business models to buy, build, partner and stay relevant in these expanding segments. Yet, at this stage, it's a level playing field for fintech, big tech and incumbents.

\$2 trillion market expansion from internet growth:

- The global internet economy is expected to grow from \$8.5 trillion to \$30 trillion by 2030
- With financial services about 7-8% of GDP, we expect a \$2 trillion incremental market expansion

The Global Internet Economy*

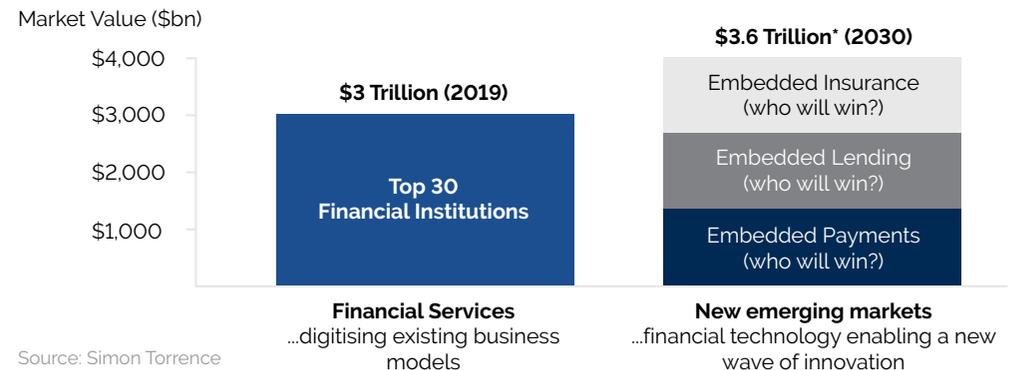


*The overall size of the internet economy is growing as (10% of 2020 GDP of 85 trillion of world GDP) with analysts predicting at least 15% penetration of internet in business in the 200 trillion 2030 economy.

Embedded finance brings another \$3 trillion:

- "Embedded finance" refers to personalized and contextual financial services functionality embedded into everyday customer and supplier journeys
- This growth presents incredible market expansion opportunities for all players

Embedded Finance: US market value comparison

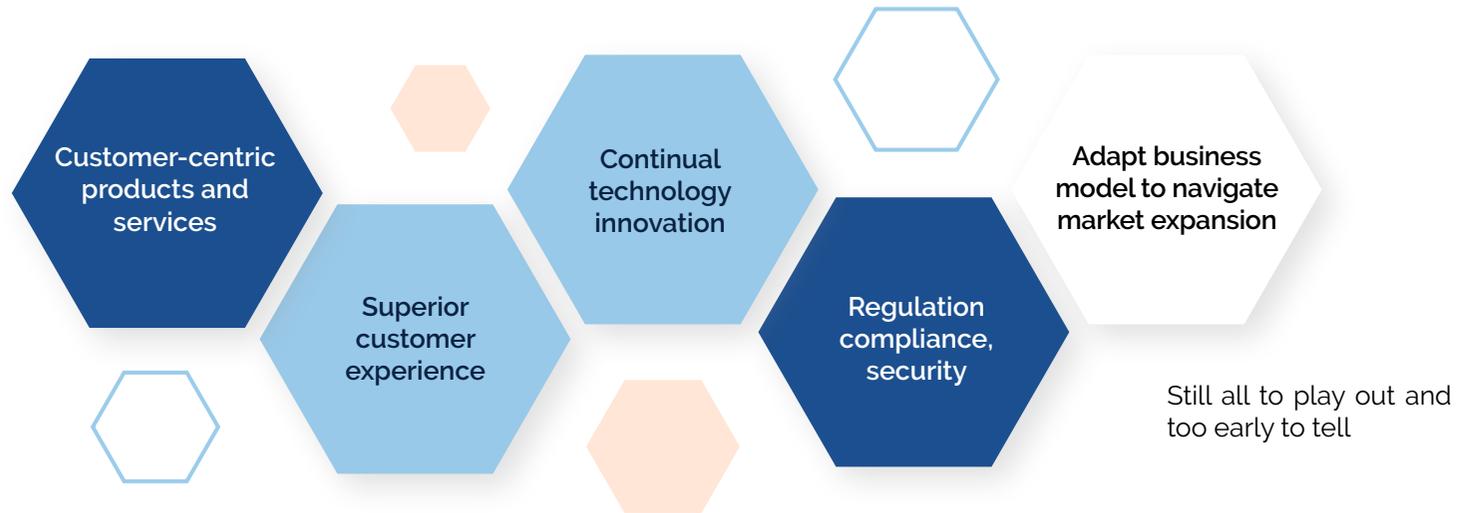


Source: Simon Torrence

Battleground scorecard: the leadership is evenly distributed between incumbents and fintech, big tech

 **Incumbents** are ahead through breadth of products and cross-selling as well as extensive experience. They are leading across Customer-centric products and services as well as Regulation compliance and security battlegrounds.

 **Fintech** and **big tech** are ahead through simple user interfaces and technology deployment. They are leading across Superior customer experience as well as Continual technology innovation battlegrounds.



Strategic implications for players

There won't be an Amazon moment. An expanding market will create opportunities for all:

There are sizeable opportunities for both incumbent and digital-native players. In a future likely to be defined by partnerships, collaborations of skills and specialisms will enable financial service providers to focus on their core business.

Let the customer be your compass to create compelling value and customer experiences:

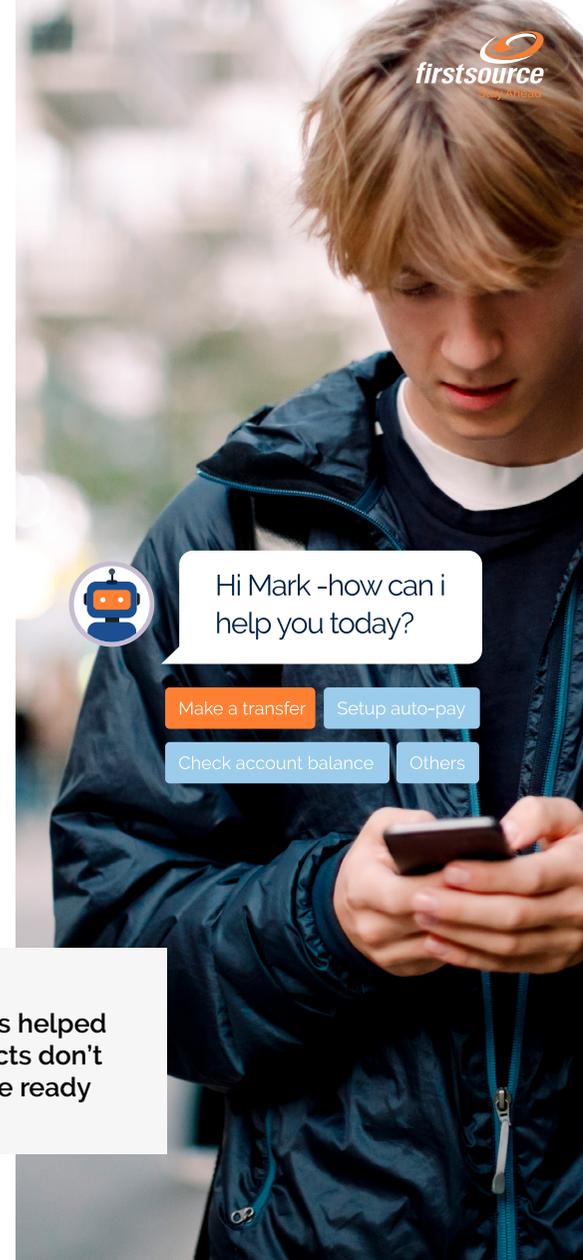
Your core business is delighting your customers, and the successful players will be those with a relentless focus on delivering the best possible customer experiences at the point of need. Those who build products with empathy for their users will always win. Customers don't seek out fancy digital tools, to learn new software, or to interact with staff in branches or contact centres. They need help to manage their financial health or to build their businesses, and need services to help them achieve those goals.

Regulation will create a level playing field. Generate trust through compliance, systems and processes:

Customers need to know that their finances and data are safe in your hands. Work hard to earn your customers trust and they will reward you with loyalty. Build institutional processes for governance and compliance to regional and country-specific regulatory norms. In fact, regulation will be one of the most important drivers that will create a level playing field between fintech and big tech vs incumbents.

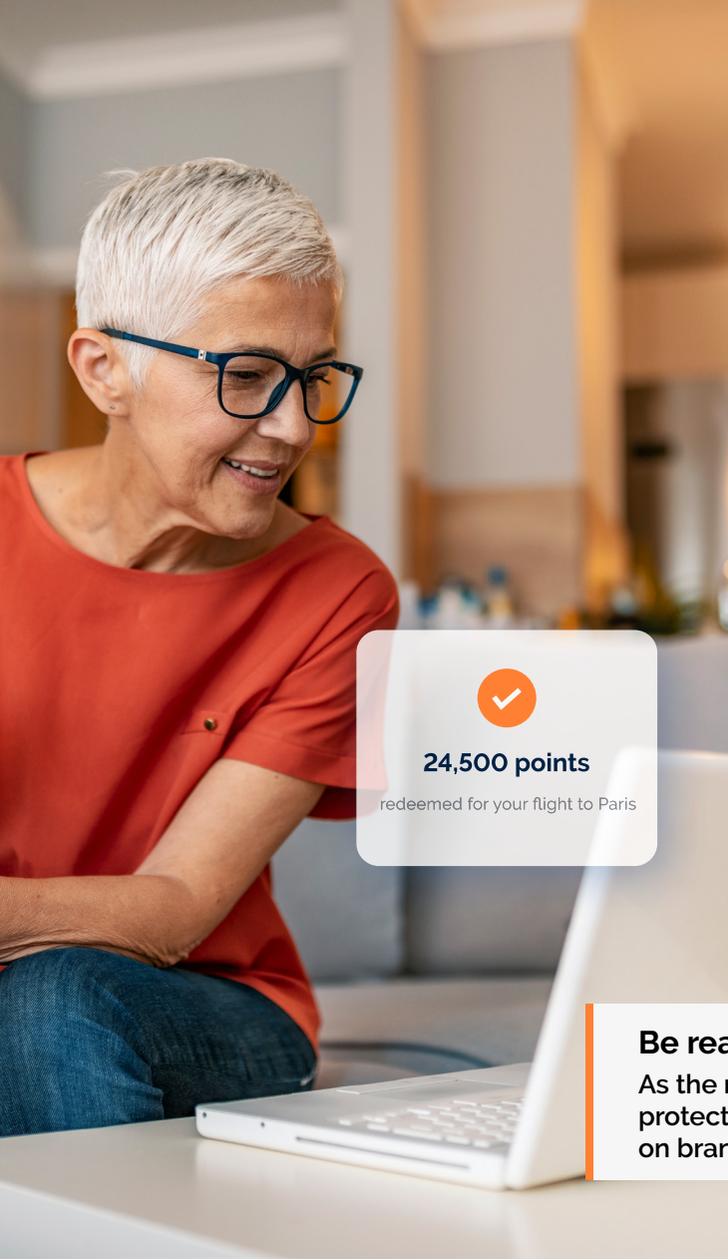
Let technology be your enabler:

Use artificial intelligence alongside human intelligence to develop and deliver personalized products and services at scale. Meet your users at their individual limits of self service. High quality engagement is key even in digital channels. Empathy to understand customer needs will always be rewarded.



Be ready for change

Pivot quickly, fail fast and expand at the speed of need to grow revenue and be profitable. If nothing else, Covid has helped shake up the industry for the need to accelerate change. Most banks are realizing that digital transformation projects don't need to take multiple years and the definition of agile is now. Players will need to constantly innovate, adapt and be ready for change.




24,500 points
redeemed for your flight to Paris

Operational implications for players

Building agile operations and processes to address the fast-changing customer needs:

An expanding market will create opportunities for all but will bring with it new challenges. Constant innovation and product launches with require all players to rethink their operational processes. When truly agile, the processes of the past will not work or serve the purpose.

For Fintech, it will be a time to grow up and mature processes, hire safe hands to navigate regulatory environment. You cannot break things and ask for forgiveness later as you grow bigger.

Cultural Change:

Organization around the customer will challenge the traditional organizational structure and require all parties to get comfortable with partnering across organizational borders to innovate and serve customers.

Cybersecurity and risk implications:

You will face new threats that go outside of the infrastructure you control, own and can lock down. This means setting up processes to monitor a larger surface area of attack vectors, governance, handoffs, escalations etc.

Continuous investments in technology, automation and people:

Expand investments to hire the best talent in partnership with the startup community and grow your in-house talent to mitigate talent wars. It is vital to source specialized skills around technology from the best talent pools, and also critically important to develop multi-disciplinary talent from within the firm. Because your own people will put you in the best place to innovate for your clients.

The lines between Technology and Operations are likely to get blurred, and there will be a continuous need for contemporary skills that will be important for all - executives and execution staff.

Be ready for change
As the market evolves and regulators start to rein in the powers of the technology platforms and evolve customer protection guard rails, it is important that the partnerships and collaborations are structured with forward thinking on brand and reputational impact.

Fintech and big tech – how can Firstsource help?

Firstsource has deep experience at the intersection of technology, customer experience, regulation/compliance processes and supporting financial products and services. The case studies below demonstrate how we've used these capabilities to deliver results to our fintech and big tech clients.

Fintech Global Digital Bank



We launched superior customer service experience for a fintech Global Digital bank. Rolling out support at speed and scale to provide **live webchat service within 2½ weeks** of contract signature.

Fintech Digital Loans Platform



We supported launch of financial lending products for a fintech Digital Loans Platform. **Handling platform launch and the 70% volume ramp in four weeks.**

Fintech Online Real Estate Marketplace



We grew trust and provided compliance process support for a fintech Online Real Estate Marketplace. Delivering a **75% reduction in turnaround time** for one back-office process.

Big Tech Global Ecommerce



We enabled superior merchant and customer experience for our big tech Global Ecommerce client. Launching a **unique hub-n-spoke operating model in just two weeks.**

Incumbents – how can Firstsource help?

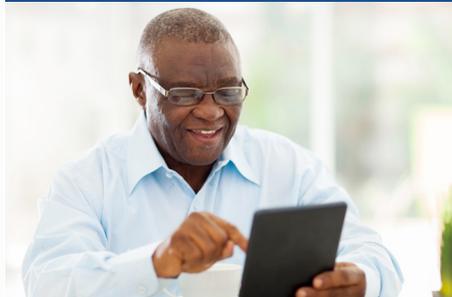
Firstsource has deep experience at the intersection of technology, customer experience, regulation/compliance processes and supporting financial products and services. The case studies below demonstrate how we've used these capabilities to deliver results when working with incumbents.

Global Retail Bank



We delivered superior customer experience across financial products for a Global Retail Bank - setting up **an omni-channel contact center in just four weeks.**

Financial Regulatory Body



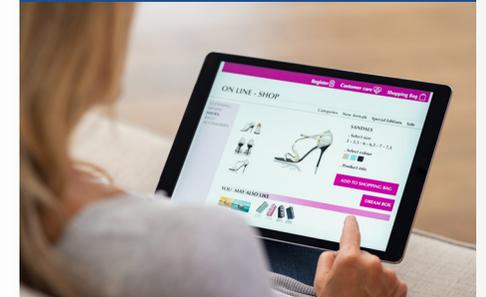
We supported proprietary platform and Cloud CRM integration for a Financial Regulatory Body. Resulting in **consistent 97% CSAT for supporting financially distressed customers.**

Global Card and Payments Provider



We optimised credit collections and compliance support for a Global Card and Payments Provider - using a digital approach to deliver a **79% reduction in cost of collections.**

Insurer (Motor, Home, Travel, Pets)



We provided Cloud, RPA automation and chatbots for an Insurer (motor, home, travel, pets) - **delivering cloud integration with proprietary IP with RPA.**

Acknowledgements

We want to acknowledge the inputs from our advisors **Lata Varghese** and **Mahesh Jadhav**. Lata's insights on the Banking and Financial Services industry and the various technologies that are disrupting this sector helped us get a deeper perspective on this subject. Mahesh's insights, into the product-market strategies of the FAANG and Fintech, helped define and refine our hypotheses on the five battlegrounds.

We also want to acknowledge the contributions of the following executives at Firstsource: Arjun Mitra, President – Collections, Anshul Verma – President – CMT, Sundara Sukavanam – Chief Digital Officer, Steve Schacter – EVP Mortgage Industry, Ashish Bisaria – EVP Customer Experience, Raji Raghavan - Chief Marketing Officer, Ian Harcus – Marketing Lead.

Further information

Please email ian.harcus@firstsource.com if you would like to discuss any aspect of this paper or how Firstsource can help.

References

www.microsoft.com/en-us/microsoft-365/blog/2020/04/30/2-years-digital-transformation-2-months
www.consumersadvocate.org/Robo-Advisor/Reviews
www.thefinancialbrand.com/104213/digital-banking-transformed-podcast-china-webank-henry-ma/
www.thefinancialbrand.com/podcasts/starling-challenger-fintech-bank-anne-boden-banking-transformed-podcast/
www.capitalone.com/tech/cloud/eno-real-time-alerts-powered-by-serverless/
www.visualcapitalist.com/the-86-trillion-world-economy-in-one-chart/
www.visualcapitalist.com/animation-the-biggest-economies-in-2030/
www.reuters.com/article/us-usa-internet-economy/internet-sector-contributes-2-1-trillion-to-u-s-economy-industry-group-idUSKBN1WB2QB
www.investorfieldguide.com/anu-hariharan-lessons-in-growth-investing-invest-like-the-best-ep-198/
www.linkedin.com/pulse/embedded-finance-game-changing-opportunity-incumbents-simon-torrance/
www.businessinsider.com/stripe-partnering-with-goldman-citi-for-business-banking-services-2020-12
www.theverge.com/2020/11/18/21571806/google-pay-relaunch-money-payments-finances-deals-offers-banking-plex
www.jpmorgan.com/onyx/index
www.fintechblueprint.com
www.11fs.com