Ready Finance Guide

Preparing your business for the changing face of finance

Vodafone
Power to you

Executive summary

The world of financial services is going through fundamental changes, underpinned by technological revolution and evolving customer attitudes. For retail banks, investment banks, wealth managers and insurance firms, it's time to embrace this change or get left behind.

In this guide, we've identified the six biggest trends that are happening in the industry right now. **The trust imperative** explores the fallout from the global crisis of 2007–08, the current air of mistrust, and the need for finance organisations to prove their worth. **Security in the digital age** explains why it's now essential for every financial firm to have stringent online security in place to protect their digital assets.

In **The changing customer dynamic**, we take a look at how customers are becoming more demanding and now expect a seamless experience across every channel. They've become **Digitally empowered employees** and want the same slick working environment they've come to expect outside of work.

Next, we turn to the rise of **New Competitors, New Money**: how micro-finance firms and FinTech start-ups are turning the world of banking on its head. Finally, **The Innovation paradox** juxtaposes the industry's need to digitally transform against the backdrop of increased regulation and risk aversion.

This guide is designed to examine these trends, and how they can be turned into opportunities for your business. By exploring the new and innovative technology that is available, you'll be able to get closer to your customers, stand out in a crowded market, and drive further growth.

Want to know more about how Vodafone is helping financial services firms to prepare for the future? Download our Why Vodafone for Finance Guide at Vodafone.co.uk/finance

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What is a Ready Finance organisation?

A Ready Finance organisation is primed to take advantage of changes in the financial sector. It's a business that's smart and quick to adapt; one that encourages transparency and recognises that building trust is crucial in helping to gain and retain more customers.

It's also at the forefront of technology, using the latest resources to better understand consumers and engage them on their terms – all the while lowering costs, improving services and boosting revenue.

1 The trust imperative

With trust and confidence at an all-time low, financial service organisations desperately need to get back into their customers' good books. To reverse the feelings of distrust and scepticism, they must demonstrate a desire to change their behaviour and how they engage with people and businesses.

Since the worldwide crash of 2007–08, financial services firms have lost the trust of both consumers and wider public bodies and governments. People aren't just angry at what they perceived to be reckless behaviour, they're frustrated that these firms aren't doing more today to reinstall trust and show they're acting in the interests of customers.

- After the media, the financial services sector is the second least trusted industry[1]
- Only 36% of UK consumers trust financial services organisations[2]
- 30% of consumers don't believe their current account offers enough value[3]
- Yet only 11% have changed their bank in the last 12 months[4]

New regulation, new rules

What has this meant for the industry at large? There's been a number of regulatory and compliance laws to increase transparency and responsibility, as well as reducing risk and complexity.

The Financial Services Act of April 1st 2013 made important changes to the way financial services firms are regulated, to ensure that risk is managed and contained more effectively than it was before. Businesses now need to prove that they're strong and robust. Because when things go wrong in the financial sector, it has a profound and lasting effect on not just the economy, but the country too.

This means handling more and more information, and requires extra time and resources to report their asset, liability and risk position to regulators. And in some areas of the financial services industry, increased regulation is leading to more permanent structural change, as businesses separate their retail and investment banking arms.

Ultimately, the financial services industry needs to show its customers, governments, regulatory bodies and the wider public that it's trustworthy, stable and responsible.

1. Mind the Gap
2/3/4. Financial Services has lost its mojo

2 Security in the digital age

The rise of online services brings with it almost as many risks as rewards. As digital ways of working and greater technological leaps permeate deeper into every area of financial services, cyber security becomes more and more important.

A recent McAfee report labelled cybercrime as a growing business, where risks were low and returns were great. It's estimated that cybercrime costs the global economy over $400 billion every year, affects more than 800 million people, and removes around 15–20% of the value created by the internet.[5]

- In 2015, average security spending increased by 14%[6]
- Over 50% of financial services firms are increasing security spending in the next 12 months[7]
- Theft of 'hard' intellectual property rose by 183% in 2015[8]
- In 2015, incidents attributed to organised crime increased by 45%[9]

Threats from outside an organisation

Cybercrime can threaten a financial services organisation in a number of ways. Firstly, it can target its customers. Through elaborate phishing scams, customer data can be uncovered and exploited. Protecting this information is paramount, as consumers who've been affected won't think twice about switching providers.

With their hands on customer data, criminals have a number of ways in which they can hurt banks. They can sell data, blackmail the bank itself, or simply steal from customer accounts. The harm goes further than purely immediate issues. A financial firm's reputation hangs on its ability to safeguard what it's entrusted with, so a breach can easily damage its reputation.

As more and more people use their smartphones to interact with financial services organisations, it's increasingly important to protect them – and their providers – against fraud. When a person uses a smartphone to access services, either through a browser or via an app, a potential new opportunity is created for hackers during the authentication process.

6. The Global Cost of Cybercrime
7/8/9. Turnaround and transformation in cybersecurity

The most recent Payment Services Directive (PSD2) focuses on 'strong customer authentication' to increase security of making payments and therefore reduce fraud against consumers and merchants. It advocates moving to dynamic/more secure identification factors, e.g. behaviours which cannot be replicated – maximising the benefits of the technology available.

Vodafone has piloted Know Your Customer (KYC) services for Government, verifying that an individual using an app on a phone actually owns the phone or pays the bills for it.

The next stage is account takeover protection to reduce fraud and protect customers from hackers intercepting authentication codes sent via SMS. Then improved authentication using biometrics would be the next step.

Threats from within an organisation

A financial organisation's internal systems are an attractive target for cybercriminals. And it's their own employees who are often the gatekeepers. They're soft targets, and phishing attacks can steal passwords and open the door to sensitive information and even the company's own money.

Around the world, there's been an explosion in the number of people using smartphones and tablets in the workplace. According to Bain & Company, mobile is the most popular banking channel in 13 of 22 countries and accounts for roughly 30% of all interactions worldwide.[10]

However, they're seen in many quarters as an added risk. Not only are personal devices being used to conduct company work, but also if they're lost or stolen, it's easy for sensitive data to find its way into the wrong hands. Mobile security breaches hit over 40% of UK businesses, and 95% allow their employees to use their own phones for work.[11] Often, it's an organisation's employees who play a significant role in causing a security breach, either through deliberate actions or careless mistakes. In a recent survey, human error accounted for 52% of security breaches, compared to technology, which accounted for 48%.[12]

By securing their transactions, companies can help safeguard their private and client data, and protect their reputation. Plus, these firms won't face costly legal, consulting and brand damage repair bills in the event of an online breach.

10. Turnaround and transformation in cybersecurity
11. Mobile Security Breaches
12. www.csoonline.com/article/2908475/security-awareness/surveys-employees-at-fault-in-majority-of-breaches.html

3 The changing needs of today's customers

Customers aren't what they used to be. And they certainly don't act the same way. They're more demanding and have higher expectations of the businesses they use. Online retailers have raised the bar – and have made it easier for customers to interact with them – when they want, where they want.

By putting their customers at the heart of every transaction, financial services firms can stand out among their competitors, deliver a better customer experience and drive real business returns.

- 87% of people want meaningful interactions with businesses[13]
- 68% of people think businesses should communicate openly and honestly about their products[14]
- 80% of consumers believe businesses should have a clear purpose[15]

The problem is that consumers aren't as loyal as they used to be, and they're being increasingly driven by price incentives.

Financial services firms are also blighted by trust issues. According to Edelman's trust barometer, only 51% of people trust the industry, whereas 74% trust the technology industry and 60% trust the automotive industry.[16]

The rise of Generation Y

So if consumers aren't happy with a service or want to vent their frustrations, where do they go? They turn to online channels, particularly social media. This is characteristic of Generation Y – or given their other name, Millennials. They've grown up to expect a seamless and integrated choice of channels, alongside transparency and flexibility – and aren't afraid to voice their opinions. And this generation is the future.

The attitudes held by Generation Y are also shared by older generations, who've come to expect more from their role as consumers. The behaviour of Generation Y is no longer characteristic of a certain age bracket, but of society in general.

13/14/15/16. Edelman Research Insight

- Millennials made up 36% of the share of financial assets in 2010 – this figure will rise to 70% by 2020[17]

- 98% prefer online and mobile channels for day-to-day banking, rather than visiting a branch[18]

- Only 41.7% of 18 to 34 year olds hold a favourable opinion of banks, compared to 63.4% from other age groups[19]

Increasingly, young professionals will use the banking services that suit them. If they realise another banking provider's services are more suitable, they'll switch. Or, they'll use more than one bank. Since 2012, the proportion of people holding products at four or more banks has tripled, growing by 6%.[20]

These consumers have grown up with the likes of Google, Amazon and Apple. They expect to be able to engage with their banking service providers in the same way. They see the financial sector as outdated in how it works, with many finding it confusing and slow, and difficult to interact and transact with. In the insurance industry, comparison websites and aggregators are making it easier and quicker to switch providers. People want better value for money, and they're prepared to hunt around for the best deal. It's having a knock-on effect through to other sectors. Consumers can now compare current accounts, savings accounts, ISAs, pensions, and investments.

The challenge for organisations is how to retain customers and prevent them from shopping around and leaving for a competitor. Businesses can do this by innovating their products, improving their services, and integrating and aligning the customer experience across every channel.

The government is now committed to improving the competition in high street banking. With new current account data being made available, customers will be able to make more informed decisions on whether they should switch accounts. This is definitely a helping hand for most consumers. Which? Research has found that 52% of people who haven't switched banks would be more willing to if it was easier to compare accounts.

17/18. KPMG – Banking on the Future
19. Minding the Gap in Social Banking Expectations
20. KPMG – Banking on the Future
21. gov.uk

The future of branch networks

In the banking sector, many organisations are wrestling with what to do with their large (and expensive) branch networks. Traditionally, the high street has been the main interaction point between a bank and its customers. This changed a few years ago with the introduction of online banking, and again with the start of mobile banking. This has been great news for customers, but it's given banks a problem because many of their processes and transactions still require face-to-face interactions.

Essentially, banks have failed to adapt to today's environment, especially as frontline cuts have hampered spending. Banks now have to work out how to reinvigorate their branch network, while reducing costs. What's now important is that they harness new technology and ideas to make the experience more rewarding for the customer and more efficient and effective for the business.

This is where technology comes into its own, playing the role of the enabler to create the next generation of branch banking. With mobile 'point of sale' technology and video conferencing to allow discussions with remote advisors, it will be possible for banks to deliver a far more personal customer experience.

Branch networks in many countries are now being organised around central showroom 'hubs' for complex product sales and face-to-face advice, while being supplemented by more intelligent ATMs and self-service kiosks.

As branches evolve, customers will expect them to dovetail with digital channels to create a seamless omnichannel experience. They will also increasingly expect interactions with the bank to be easy and engaging – whether online or in person.

It's certainly a more attractive offer for customers. In the past, finance organisations have tried to win more business by differentiating their products. Customers, however, see little difference between what each organisation is offering and in truth find the options a little confusing.

Driving a better customer experience

Choice, in the end, will come down to service differentiation. With today's customers less loyal, and also more responsive to persuasion on social media, offering a better customer experience has never been more important. But delivering this will be different for each financial services organisation.

In the insurance industry, firms are looking to get closer to their customers by increasing the regularity and value of their communications. It's important the customer feels their insurer really cares, rather than just sending them renewal dates and claims. And banks want their communications channels to focus more on the individual, through web chats, mobile offerings and a more holistic in-branch experience.

4 Digitally empowered employees

As with most industries, finance organisations face a battle to attract and retain the best employees. The struggle, though, can be to persuade digitally savvy individuals to work in what are traditionally conservative environments.

Today's employees are blurring the lines between how they work and how they play. And they're using the same technology both inside and outside work to make their lives easier.

- Generation Y will make up 75% of the workforce by 2030[22]

In their personal lives these 'digital natives' are using cloud services, mobile apps and 'frictionless' user experiences. They've grown up speaking this digital language and are at home with computers, the Internet and the latest online platforms. But upon entering the workplace, they find themselves hampered by slow legacy infrastructure, processes and systems – and they're not comfortable with it.

It's important to remember that this is a bigger issue than just managing disgruntled and disaffected staff. These individuals are, after all, critical to empowering the change that so many long-standing financial services organisations are indeed seeking to drive.

The successful organisations of the future will embrace the technology that their latest recruits are already enjoying in their personal lives. Not only will this help to make the business seem more attractive, it will fundamentally change how its employees work.

22. Marketers Must Get To Know Digital Natives

5 New competitors, new money

Where does this leave 'traditional' financial service models? They're being vigorously disrupted. Established businesses are feeling threatened, while new opportunities are being snapped up by those willing to embrace change. It's not just happening in the UK or Europe, but across the world. This is a global phenomenon, and it's occurring fast.

The 'FinTech' (Financial Technology) industry is growing rapidly. It's predominately made up of small start-ups that develop mobile payments and alternative finance, creating new and innovative ways to pay for goods.

- The UK's FinTech market is worth around £20 billion[23]
- The total invested in UK FinTech companies in 2014 was £342 million[24]
- FinTech's largest segment is Digital Payments, with a total transaction value of mUSD 48,571.1[25]
- 14.3% of the UK population already has some type of FinTech service for online payments or peer-to-peer loans[26]

FinTech is shaking up the payments industry. What used to be a small part of the larger financial services industry is becoming a major area for change – and Communication Service Providers (CSPs), once obscure, are becoming more relevant.

The monopoly that banks had held over the payments and transactions sector is loosening. Their previous stronghold is now threatened by various new players, from tech giants like Apple and Google, to smaller retail chains. Starbucks, for example, recently launched its 'Starbucks App', allowing customers to order from their smartphone before paying in store using Apple Pay. This could also, however, present an opportunity for banks to partner with large retailers – and drive more innovative ways to pay for products.

Not wanting to be excluded from the FinTech boom, a number of large international banks are developing their own payment platforms. Citi Bank, Santander, UBS and Barclays, to name a few, have invested in their own FinTech incubators – to innovate and lead, rather than fight the disruption.

23/24. Bright Future for UK Fintech
25. Statista Fintech
26. Is anyone using this stuff?

The pace of new and challenging tech is set to accelerate and gain further momentum across Europe with the advent of the Payment Services Directive 2 (PSD2). This piece of legislation is designed to reflect new developments in the payments market, particularly the rapid growth of electronic and mobile payments. Mobile technology is key here as mobile devices are increasingly being used to enable each transaction and check and secure every customer's identity. It aims to improve transparency, innovation, security and regulation of payments, with a focus on increasing competition and improving consumer protection rights.

Nimbler, smarter financial services

Some of the most exciting technology is coming out of Africa, where countries are missing a communication infrastructure generation – and building a totally mobile banking world to suit the very high proportion of people with smartphones. Vodafone's M-Pesa (mobile-based money transfer and micro-financing) and InterSwitch (electronic switching and payment processing) are examples of payment models that have the potential to erode many lines of traditional financial services businesses. M-Pesa is also making it possible for businesses to enter emerging markets, such as health insurance, more quickly and easily.

But what about those people who want their banking to be as personalised as every other aspect of their life? Innovative companies such as Atom Bank have the potential to attract new generations of consumers who are used to running their finances on a mobile app – and see it as a natural extension of how they run the rest of their lives.

These players aren't held down by decades of technology and legacy processes, and could steal whole segments of customers from established providers.

The first online credit card

Telenor Banka in Serbia has introduced the first online credit card. The technology enables online payments via the Internet or mobile apps from the credit account. Telenor Banka has become the fastest growing online bank in the region, with the number of m-banking users doubling in only 12 months.

6 The innovation paradox

Most finance organisations are going through a process of 'digital transformation'. They recognise that the world has changed, that customers have changed, and that new and disruptive technologies are the future. But it's the organisations that can embrace and explore new technology that have the best chance of standing out in such a crowded market, while delivering altogether better ways to interact with customers. For example, in the insurance industry, customers really want to feel that they're getting value for money. And with usage-based insurance (UBI), insurers can develop differentiated – and more relevant – offers to customers.

- It's estimated that over $60 billion of car premiums will be generated by UBI by 2020[27]

- Globally, UBI accounted for 21.7 million policyholders in 2015 – a huge jump from 12.2 million in 2014[28]

The Aviva Drive app was launched in 2012 to help reward careful drivers with lower car insurance. It records a motorist's driving style, including their acceleration, braking and cornering, to give them a personalised score they can use to get a discount on their new premium. It was also a way to appeal to a younger, smartphone-friendly audience who might previously have associated Aviva with older drivers, and therefore not relevant. And it creates a more continuous relationship between an insurer and its customers, rather than the few and sporadic touch points it makes over an average lifetime.

Wearable technology is another area that offers medium to long-term opportunities for growth. Businesses willing to invest in tech that feeds data back to users could offer insurance packages that are more personalised and competitive, helping to enhance the customer's digital experience.

In emerging markets, the growing micro-finance industry is opening up new areas for core banking services and insurance. This means reaching previously inaccessible consumers, who may not have met the minimum financial requirements or whose locations prevented them from opening an account.

The innovation paradox is that all this change needs to happen against a background of tightening regulation and risk management, within an environment that actively discourages 'anything new'.

27/28. PRNewswire

Are you ready?

At Vodafone, we're spending a lot of time working on ways new technology can help to future-proof financial services organisations – and make them grow.

If you'd like to know more about how Vodafone can help you take advantage of the future of finance, read our **Why Vodafone for Finance Guide** now.

Want to talk? We'd love to hear from you.

Contact your account manager or call 0800 046 3037

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RFUK2016-02