



JOURNEY TO PLATFORM ECONOMY

A FINANCIAL SERVICES PERSPECTIVE



Financial services firms are facing significant digital disruption. And it's not from mobile and online banking, which is already widely available. This disruption is hitting the core of their business—their operating models—and thus, their industry position and profitability.

The traditional business models of firms are under attack from fintechs, new digital banks, aggregators, specialists and monolines, among others. Only about one-fifth of today's financial players have been in the market since 2005. And yet, these financial newcomers have captured one-third of revenue growth in Europe and the US.

At the same time, a generation of new consumers are redefining customer service. Millennials and generations Y and Z are extremely comfortable with, and perhaps even prefer, advanced technologies. Their behavior reflects these new realities.

Think of the day-to-day services that run on a connected ecosystem—ride shares, online shopping, payment apps and digital wallets. Having cash in your pocket is no longer a necessity, nor is it a common practice, and we can see that in how people bank. For example, in the UK, 15 percent of 25–34-year-olds hold an account with a digital-only bank.

These changes in the financial services landscape are putting tremendous pressure on firms. To remain a key player in the market, they must select the right strategy and technologies that will make an impact on three distinct areas of their business.

- **Ease and Convenience**
- **Personalization**
- **Corporate Banking**

EASE AND CONVENIENCE

The average consumer today relies on commoditized and automated financial services for payments, deposits, mutual funds and travel insurance. Traditional financial services firms are no longer the sole custodians of these types of services. Instead, ease and convenience are driving consumption. The **2019 Accenture Global Financial Services Consumer study** reveals that around half of consumers expect financial providers to offer propositions that address core needs, apart from traditional financial services.

This feature requires significant integration with the overall ecosystem. For example, travel and travel medical insurance are now mostly sold as packaged deals on hotel and flight bookings. Also, property purchases are usually bundled with mortgages, homeowner's insurance and loans for furnishings. A health proposition may link wearable devices with points-based rewards for healthy behavior or access to wellness services.

The key drivers are human experience and customer convenience, which influence the strategy for and prioritization of the right systems, solutions and technologies in the new.



PERSONALIZATION

Financial services products need value. That includes personalization and a high degree of trust. Data and differentiation will account for that value, which is why new financial players offer propositions and products that harness new technologies to try and disrupt the market. The revenue models of these new companies are fee-based and driven by the value they deliver.

Consumers who are comfortable with technology prefer to have control over when and how they engage financial services firms for advice. They are increasingly turning to fintech firms for this service, threatening the dominance of the traditional providers in this space. A recent report found that 72 percent of high-net-worth individuals below the age of 40 are comfortable working with a virtual financial advisor. And most millennials are willing to take advice from Facebook and Google. The trend shows a general tendency among firms to veer toward advanced user experience technologies, including artificial intelligence (AI), for asset allocation and personalization.

General offerings will no longer suffice. Consumers want tailored, customized offers from insurers. Accenture's recent **insurance study** shows that 64 percent of respondents are interested in premiums tied to safe driving, and 52 percent want life policies with premiums tied to a healthy lifestyle.

The challenge is that data and security go hand-in-hand with personalization. This same study indicates that 38 percent of consumers would leave their insurer over concerns about data security. With the GDPR and privacy regulations at the forefront, personalization will be a true balancing act.

B2B CORPORATE BANKING

The final impact—and the holy grail in terms of complexity and profitability—is the business-to-business (B2B) segment of corporate banking, which essentially runs the global economy. The first wave of change is now hitting this business in the form of automation, economies of scale and service integration to add value to the chain. To add to that, as the global economy slows down and competition increases, there is tremendous pressure on banks to add value and justify margins. As such, innovation will be key to securing competitive advantage. Open banking directives across geographies will likely accelerate the infusion of innovation into the B2B market.

ALL ROADS LEAD TO PLATFORMS

The response to these impacts for many financial services firms is to enter the platform economy. The term platform economy inherently implies ease, convenience, personalization and all things “as-a-service”. More importantly, it focuses on integration with multiple partners in the ecosystem. Put simply, it’s the uberization of financial services.

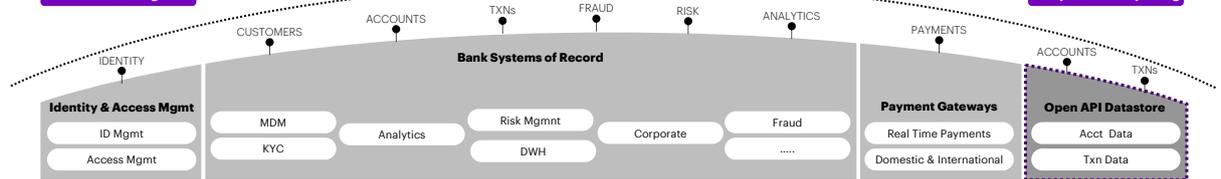
As an example, even after a Fortune 100 insurance company had successfully navigated the impacts of the internet to ensure a balance between its intermediary and direct business, it recently came face to face with different set of challenges. Autonomous vehicles, a shifting client demography, the rise of smart businesses and new ecosystem sales channels, like Amazon and Alibaba, raised concerns about the viability and flexibility of its technology stack.

Financial services firms are building connected platforms with core design principles on flexibility, openness and scalability. New technologies are powering these design principles, with Cloud as foundation, openness offered by API architectures, speed to market with open-source and reusable components, mobile and IoT technologies enabling experience and computation at the edge, while software independence and portability are powered by containers. A conceptual view on Banking architecture enabling innovations through power of platforms and ecosystem is shown below

Public Service Travel Entertainment Education Health Retail Communication Utility Services Automotive

Ecosystem Integration - Beyond Financial Services

ECOSYSTEM LAYER



SYSTEM OF RECORD INTEGRATION



DATA LAYER

To respond to these customer propositions, financial services firms require new thinking and new approaches. Specifically, they need to keep in mind the following:



The initial time-to-market will be a major differentiator when introducing new customer propositions.



Seamless integration with ecosystem players in the cloud will be required to clear the way for real-time transactions.



Higher automation of business processes will be needed to improve response time and enable smart solutions to complex processes.



Harnessing the power of data, AI and user experience can differentiate propositions, enhance business value and increase profitability to give firms a competitive edge in a crowded market.

We have discussed three driving factors leading to Journey to Platforms-Ease and Convenience, Personalization, B2B priorities. Intensity of these three driving factors in a specific client context will redefine their future business models and hence the technology to drive those business models. While this model will see confluence of Data, Cloud, Platforms and API, every journey to the target state will be different. Success of such transformational journey will also depend on velocity of transformation and continuous business value delivery. What matters here is speed of system integration, automation refining processes and service in agile mode, continuous integration and development methodologies and more importantly unlocking intelligence from data locked in applications and human+ workforce. These execution factors signal the need for firms to make a full, calculated leap into business transformation by investing in the right way of undertaking these transformations. Only then will the industry be able to discover value and create growth in a disrupted world. Journey to Platforms has begun. However, navigation choices powered through new technologies and methods will decide winners, survivors and losers in this race.

References

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