Predictable Disruption: Banks need to be proactive to spot the next wave
Under the theme “People First: The Primacy of People in a Digital Age,” the 2016 Technology Vision highlights five emerging technology trends shaping the new business landscape: Platform Economy, Digital Trust, Liquid Workforce, Intelligent Automation and Predictable Disruption.

This report offers a banking industry perspective on Predictable Disruption. Banks will need to address each trend first from a strategic business and then a digital enablement lens as they begin to transform themselves Beyond the Everyday Bank, interacting daily with customers to meet their financial and non-financial needs every day.
Digital ecosystems as catalyst for new banking disruption

Forward-thinking banks are looking to convene digital ecosystems, assembling existing provider partners and other key players around mortgages, business loans, mobile payments or other financial services, creating digital connections and establishing equitable value sharing. Likewise, more and more companies in most major industries are looking to build or partner in platforms around innovative solutions. As they do, new and fast-emerging digital ecosystems with record-high market caps and asymmetrical growth—think precision agriculture, digital health, smart cities and even driverless cars—are emerging around them. Such digital ecosystems can bring significant implications for financial services and will likely become the catalyst for the next major stage of banking technology and economic disruption.

Capital Supports Platform Business Model Investments

Access to Growth Capital: Platform companies have record-high market caps based on the power of their ecosystems.

Ecosystem Economics: Leaders are crossing over traditional boundaries into new markets and new industries—driving new levels of growth, profitability, and differentiation.

Ecosystem Power Drives Profits and Valuations
Bank executives polled in our 2016 Technology Vision survey listed banking as one of the top three industries, along with electronics and high-tech and automotive, that will face the most digital disruption within the next three years. More than one-third believe that established banks are most likely to face the greatest risk of disruption. The change will be more pronounced and dramatic, redefining and reinventing whole industries and economic segments. Eighty-five percent of bankers agree that bank industry boundaries are being erased and new paradigms are emerging with every industry being significantly impacted. Forty-five percent say that financial services companies are going through significant digital business transformation or digitally-enabled change, and 27 percent believe that the industrial Internet/Intranet of Things will cause a complete transformation of the industry.

Banks have certainly seen their share of disruption over the last few years—from online banking to peer-to-peer lending to blockchain-based payments and money transfers to everything else in between. Unfortunately, there is no crystal ball bankers can look into to know their future. Still, because ecosystems are inherently tied to industries and business models, banks can gain a proactive grasp on the upside of disruption.

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Consider the emerging autonomous and connected car ecosystems. Banks can tap into their automotive, consumer products and industry relationships, for example, to envision the connected car future. That future might include unconventional vehicle ownership models that command new (perhaps, usage-based?) vehicle lending products; in-car purchases that broaden consumer access to banking services warranting much tighter security; or value-added in-car offers based on data mined from connected driver interactions.

Such possibilities point to banks being proactive to get a better handle on disruption to begin developing the new business models that optimize banking products and services and drive additional (and ongoing) revenue streams. Take, for example, the autonomous vehicle. There are three small tremors banks can watch for and recognize to anticipate imminent earthquakes of ecosystem-driven disruption.

- **Rapid growth and patterns of digital ecosystems inside and outside of banking.** Platform-related disruptions that once may have been isolated to a disparate industry are now quickly rippling out to businesses in multiple industries. The autonomous vehicle ecosystem, again, is a good example; it crosses industry boundaries of smart cities, infotainment, insurance, auto financing, car share and retailing boundaries. Banks’ financial services are relevant across them all in one form or another.

- **Shifts—gradual or sudden—in consumer income and/or spending that may indicate needs and point to new bank products or services.** Uber is proving this point. According to FutureAdvisor, consumers spent $26.4 million on Uber for the 12 months ending May 2014—12 times that of Lyft.¹ By looking to employ its network of drivers in a network of self-driving cars, Uber executives hope to usher and ease the transition for city authorities in introducing autonomous cars.² Grand View Research expects the global connected car market to reach $180 billion by 2022,³ reflecting a CAGR of 27 percent from 2015 to 2020, while Lux Research forecasts self-driving cars to be a $87 billion opportunity in 2030.⁴ The path from ride-sharing to the driverless car economy implies new demands on banking and financial services.

- **Use of new technologies to reshape industry processes, products and/or services.** Cars with semi-autonomous features, such as park assist and collision avoidance systems, are already on the market while more fully autonomous ideas are in the research stage despite current cost, infrastructure and regulatory barriers. Google is piloting a vehicle driven by Google Chauffer software—already with more than 1.5 million self-driven miles logged—that processes all the information to help the car safely navigate the road without getting tired or distracted.³ Ford, GM, Toyota, Volvo, Nissan, Mercedes-Benz, Audi, Tesla, Apple, Uber and many others are exploring driverless options. The development investment and effort around autonomous cars is bringing a distant innovation closer to near-term reality.

By paying attention to and predicting the rise of these and other sign posts of disruption (such as labor, cost and regulatory changes), traditional banks can redirect their own strategic actions. They can use their scale, resources, vast industry knowledge and maturing digital abilities to map out ecosystem scenarios and unveil the disruptive opportunities and threats. Doing so will likely point to new roles and pathways for banks to turn disruption into opportunity to get ahead.
Forge new roles and new paths

Slightly more than 80 percent of bankers agree that organizations are increasingly pressed to reinvent themselves and evolve their business before they are disrupted from the outside or by their competitors. As part of the reinvention, banks can gain visibility into the disruptive forces of ecosystems and take action now by developing strategies to forge new roles and new paths:

1. Envisioning your role in the next phase of economic disruption. Build the partnerships that will support your ecosystem strategy. Identify the key players in digital ecosystems, choose your preferred alliances and have initial discussions.

2. Piloting an initial foray into a digital ecosystem. Pick the one business process, product, or service that is best aligned with your prioritization of potential disruptions and can benefit from existing and new partnerships.

3. Creating new metrics to determine success in digital ecosystems. Develop these by tracking the progress of your pilot and use those insights to uncover potential indicators; iterate this process until you find metrics that can reliably measure success.

4. Identifying new skills demanded to support the expansion of your digital ecosystem strategy. What new banking technology skills are needed? Does your organization need experience in a specific industry? Develop a plan to acquire these high-priority skills.

5. Continuing to increase information security. Banks will need to boost their investment in machine-to-machine security and authorization technologies to support ecosystem-driven innovation, such as in-car service purchases.

Each bank’s journey will be unique, and the rewards will go to those that can foresee disruption and be proactive.
Predictable Disruption:

100-Day Plan

Over the next three months, start to understand the disruptive forces and opportunities of emerging ecosystems.

1. Appoint a C-suite sponsor to oversee a team that is responsible for "ecosystem intelligence," being proactive to keep an eye on signs of emerging disruption, engage with industry experts, look for upside opportunities and champion responsive strategies to protect the bank’s future.

2. Maintain an inventory of the ecosystems related to or relying on your business and prioritize the list according to those with the greatest potential for risks against and rewards for your organization. Hold ongoing conversations among bank leaders on how the ecosystems might reshape the banks’ strategy.

3. Challenge your team to develop innovative ideas for how to use emerging digital ecosystems. Envision your competitive position, new value chains, and new use cases for the ecosystems where you plan to compete.

4. Craft the strategy that will bring these ideas to fruition. Start to line up the resources, stakeholders, and investments necessary to forge this new path.
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