Confederation of Indian Industry

BANKing TECH Summit 2016
10th
CII's 10th International Conference
16 June 2016 • The Taj Mahal Palace • Mumbai

Contents

Fintech: Redefining banking for customers

Decade edition of CII BANKing TECH Summit 2016

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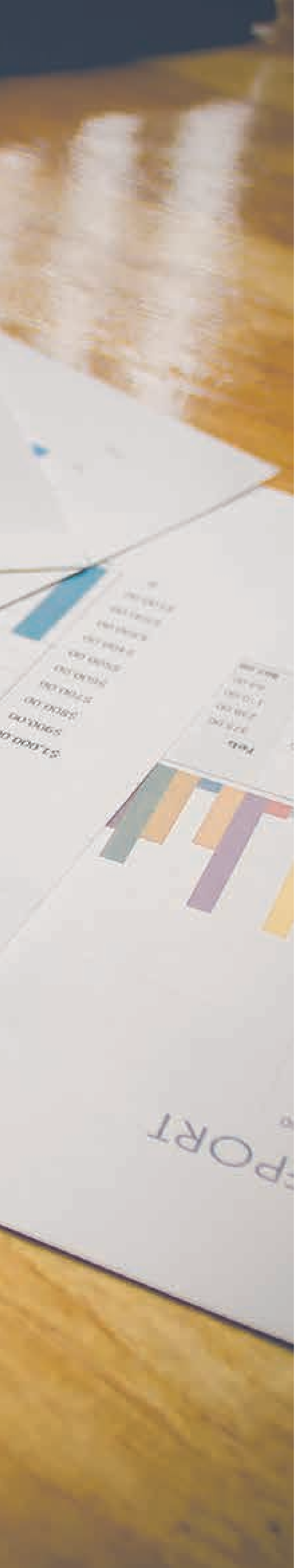
QUARTER SALES REPORT
Frames
Disc Brakes, Front
Caliper Brakes, Front
Disc Brakes, Rear
Caliper Brakes, Rear
Saddles
Forks
Brake Cables
Shifter Cables
Rear Sprockets
Front Sprockets
Handle Bars
PROJECTED
ACTUAL
Difference
Actual Balance
Projected Balance



Chairman's message

The CII BANKing Tech Summit 2016 is a very special one as it is the decade edition.

In the decade that went past, we witnessed sweeping changes, both in the way banking is done and that in which technology is adopted and deployed for greater customer affinity, more efficient processes and more robust compliance. As a third dimension, regulatory compliance has also kept pace with the need to address the challenges posed by a complex financial ecosystem.

The next few years promise greater excitement: the banking space is being redefined by the entry of new players, the introduction of new business models and participation of innovative start-ups. Technology has leapt several generations ahead, leveraging the advances in the digital space.

The confluence of these developments has led to mind-boggling changes in the fintech space. Conventional operating models are fast giving way to new age technologies. Some of the traditionally successful financial structures are now facing existential challenges!

Recognising the potential impact of the digital revolution, the 2015 summit focussed on the opportunities that would open up in banking as a result of the digital wave. Building on this, the decade edition of the summit seeks to explore the future of both the banking ecosystem and the technologies on the horizon that will shape the destiny of financial services in the years ahead. Against this backdrop, PwC, the knowledge partner for the CII BANKing TECH Summit, has delved into four specific themes that emerged close on the heels of the digital juggernaut in the fintech space—namely contextual user experience, proliferation of payment acceptance channels, robo advisory, and marketplace lending platforms. This report defines a structure for delineating advances in the fintech sector, on the lines of the 'digital out/digital in' framework outlined last year. No dialogue on advances in fintech would be complete without reference to blockchain technologies, the next revolutionary wave that is waiting to happen. The report concludes by presenting a possible engagement model for collaboration between banking institutions and innovative start-ups. As always, the summit seeks to provide a platform where industry experts, practitioners and academicians can share their perspectives. I am sure this report will stimulate further thought and dialogue, spurring a rich exchange of ideas.

Arun Jain
Chairman, CII BANKing TECH Summit 2016
Chairman and Managing Director, Intellect Design Arena Ltd

Message from PwC

In the last few years, technological innovation has allowed new players to change the way the world perceives financial services. The ripples that were felt a decade ago through digitisation of processes have resulted in continuous technological innovation through disruption. This disruption has touched every thread of the fabric of the financial services sector and promises to revolutionise it completely. The underlying principles for each of the innovations are ***simplicity, supreme customer experience*** and ***added value to the customer.***

This report presents the key findings of the CII-PwC Banking Tech Survey 2016. The survey involved 25 respondents, predominantly chief information officers (CIOs), chief executive officers (CEOs), digital and technology heads, heads of innovation, and digital managers. Given the growing prominence of fintech, it sought to capture their views on the future shape of the financial ecosystem and how fintech will go hand in hand with the banking sector. In addition, we have included insights from PwC's Global Fintech Survey 2016.

This report appraises the development of new technologies and offerings by fintech in the banking space, the adoption of these emerging technologies and the impact that fintech has had on the financial services sector.

Vivek Belgavi
Leader
FinTech and Financial Services Technology

Rise of digital

In this digitally vibrant world, the Internet and the smartphone have been the two most prominent factors behind the change in the consumption of financial services sector offerings. Traditional banks face the threat of irrelevance at each stage of this disruption, given the emergence of newer and more preferable modes of accessing banking and related services.

Bill Gates once said, 'Banking is necessary, banks are not.'[1] Digital disruption is now surging ahead and bringing in new business models, new technology, a renewed focus on consumer experience and new players in the market.

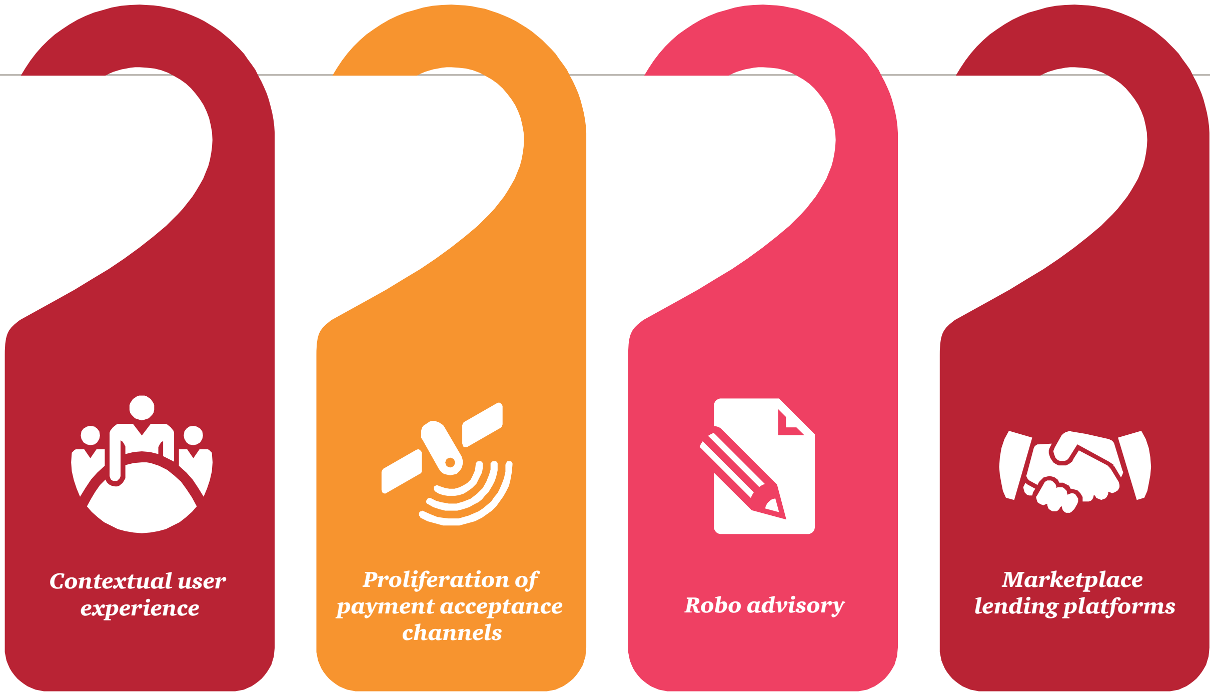
[1]Bill Gates at a conference in 1994

PwC outlook 2016

The last decade has witnessed a transition in banking services from the traditional brick-and-mortar model to a greater virtual presence, with the new age customer being lured into their digital web. Engaging the customer through the most relevant, preferred and convenient channels has become key to maximising customer value and creating newer and more innovative revenue streams for banks.

PwC believes that fintech will be a turning point in the way the world views financial services and will impact the entire ecosystem of the banking industry by redefining the mode of interactions. The role played by fintech in each facet of banking is evolving rapidly and banks need to be on top of their game to stay ahead of the competition.

We have identified four themes which stand to change the way we bank.



What is fintech?

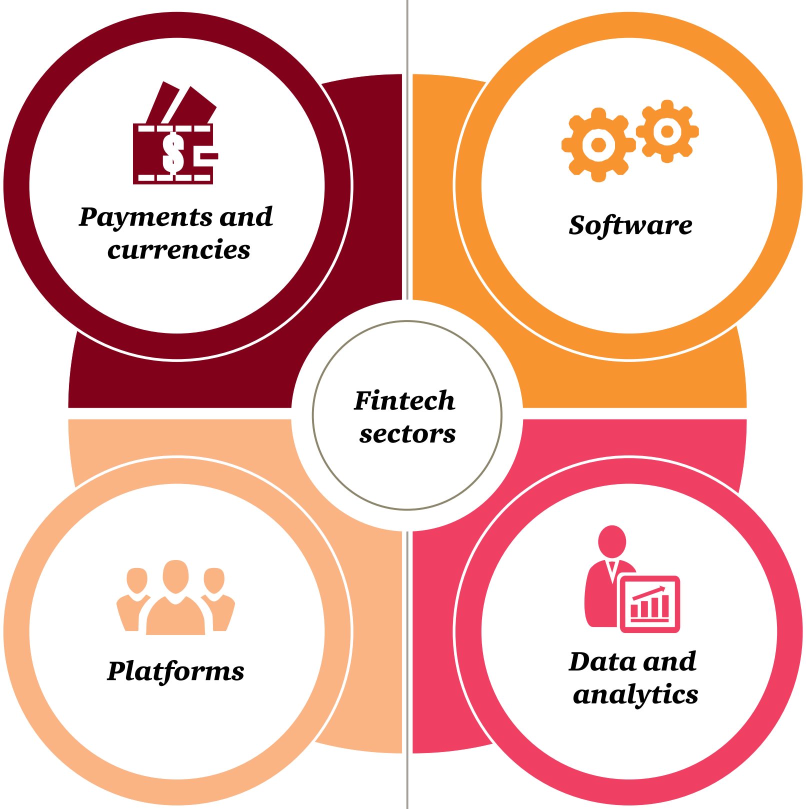
Fintech or financial technology is the term used to refer to any technology applied to financial services. More specifically, we can define fintech as a complex combination of financial services and technological innovations in an ever-changing ecosystem of customer expectations and regulators.

As a generic term, fintech applies to processes used by traditional financial services to align and modernise their business processes and disruptive technologies.

Fintech covers diverse areas across banking and caters to new business models, including newer forms of currencies, which are known as cryptocurrencies. It encompasses the full gamut of innovations in financial services, where technology is the key enabler.

Technology used to make payments in new ways. These may be online payment systems or mobile payments and emerging technology such as cryptocurrencies.

New processes and programs designed to improve back and middle office processing for a variety of businesses, making them more efficient and effective.



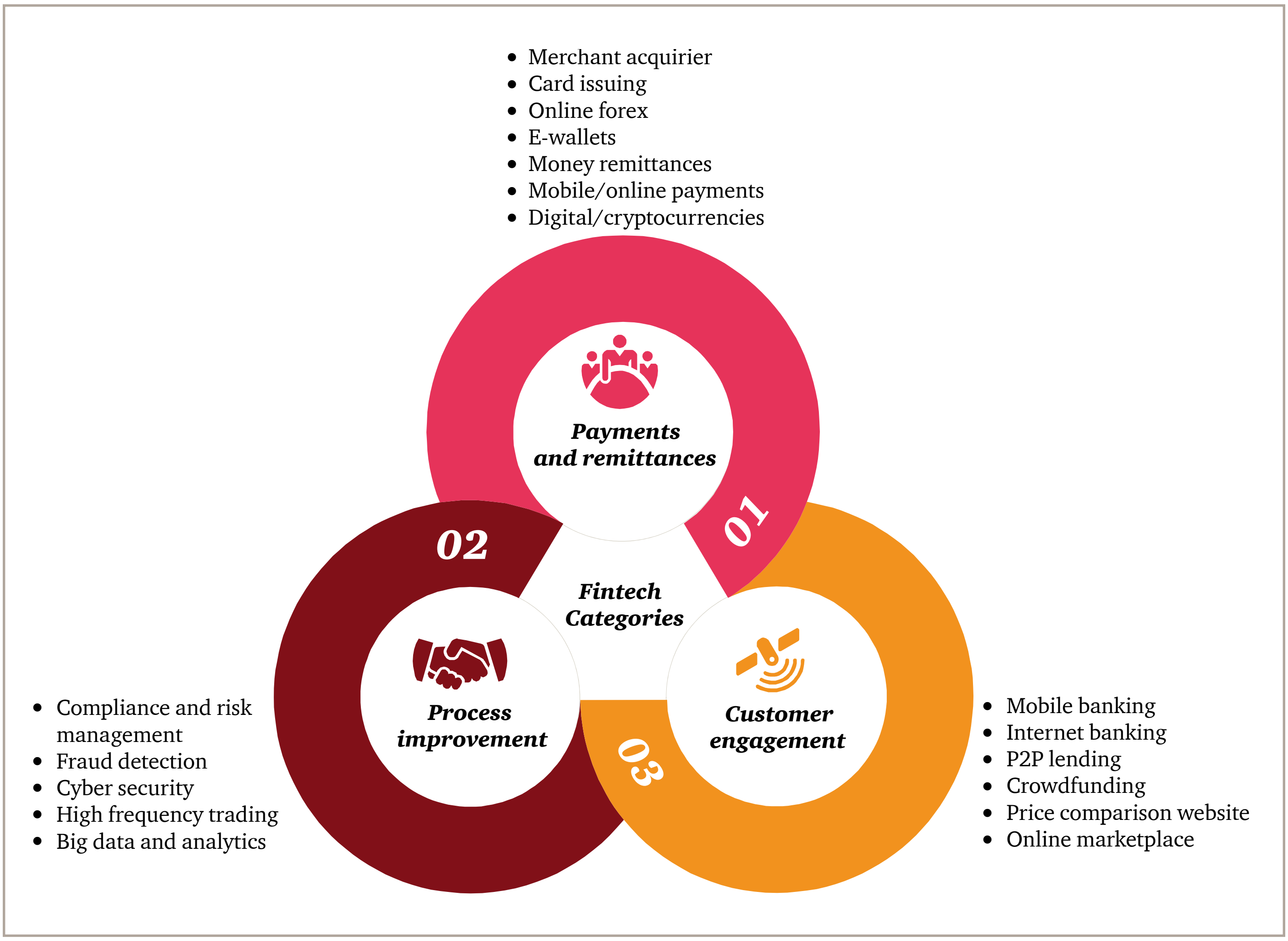
Online systems designed to allow users to perform a variety of functions, such as peer-to-peer lending and comparing products through aggregators.

Technology which gathers and/or analyses data to produce usable information to improve business and target customers more effectively. Includes the use of telematics, biometrics and compliance.

Source: PwC analysis

We can broadly segregate the fintech landscape (for banking) into three buckets:

1. Payments and remittances: Focus on innovative payment solutions
2. Process improvement: Improve the efficiency of processes to make them more agile and lean in terms of time, cost and people involvement
3. Customer engagement: Target customers by enhancing customer experience and convenience, leading to self-consumption of banking services rather than dependence on standard modes of transactions



Source: PwC analysis

Fintech: Why now?

Today, fintech companies cater to the entire spectrum of financial services—ranging from propositions that compete with core banking businesses to innovative lending facilities, seamless payment solutions and products that hit banking third-party revenue streams—be it personal finance management or analytics-backed wealth advisory services. Driven by digital technologies, analytics and exceptional customer experience, these companies are well on their way to competing with the behemoths of the industry, both globally and in India.

The key trends that are changing customer behaviours are:

Demographic and social changes

- Current generation thrives on social media
- High preference for mobile solutions
- Preference for self-service

Rapid urbanisation

- Larger concentration of population in urban areas
- Pay-as-you-use model
- Personalised service

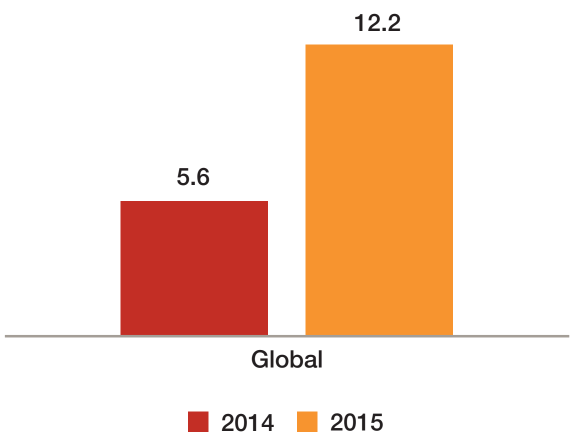
Shift in global economic power to emerging markets

- Rising middle class
- Rising disposable income

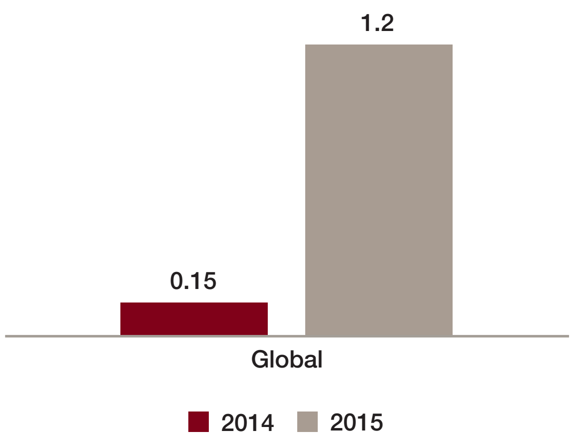
Funding of fintech start-ups more than doubled in 2015, reaching 12.2 billion USD, which is up from 5.6 billion USD in 2014, based on the companies included on the PwC DeNovo platform.[2] The mood in India, like that for the rest of the globe, has been bullish.

Investment in fintech companies has touched 1.2 billion USD in 2015, compared to 145.1 million USD in the previous year.[3] Many multinational banks are also looking to invest in early-stage fintech start-ups in India,[4] and these trends are moving at a considerable pace.

Fintech funding grew to 12.2 billion USD in 2014 based on the companies included in the PwC DeNovo platform.



Investments in Indian fintech companies grew from 145.1 million USD in 2014 to 1.2 billion USD in 2015.



Source: PwC Global Fintech Survey

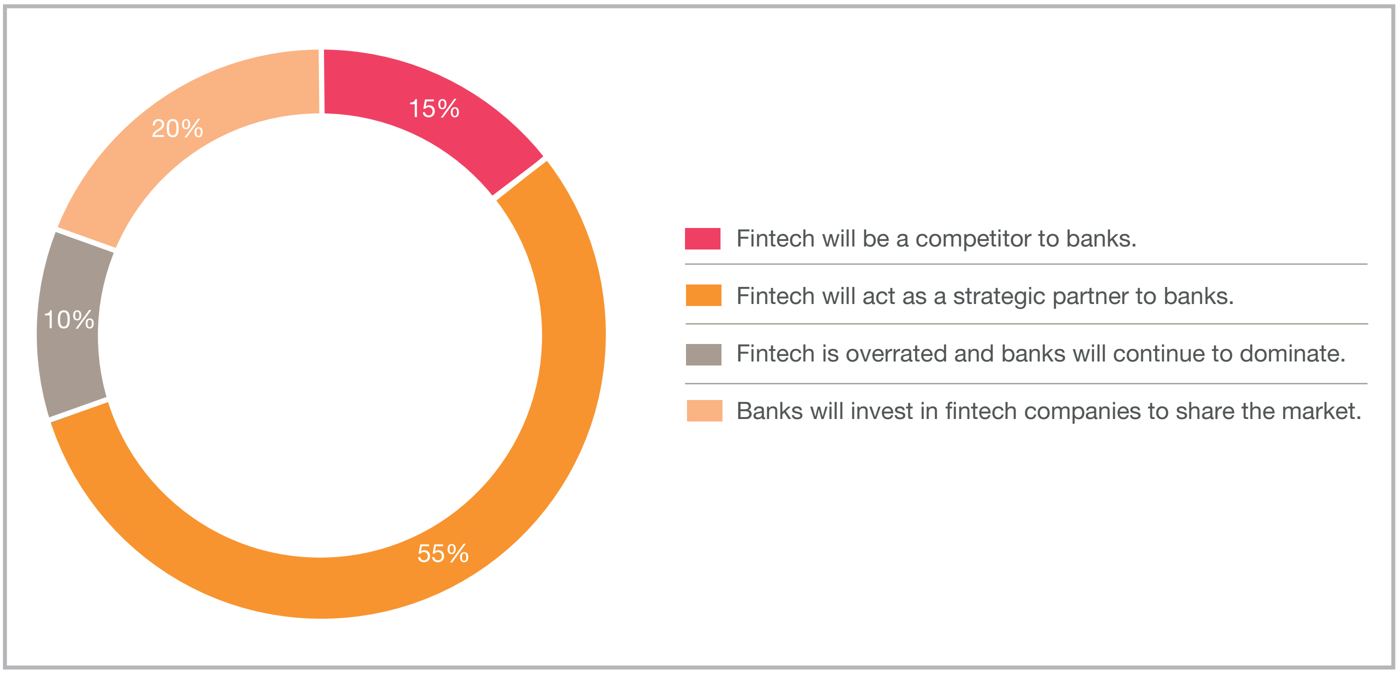
[2]PwC. (2016). Blurred lines: How FinTech is shaping financial services. Retrieved from http://www.pwc.com/gx/en/industries/financial-services/fintech-survey/report.html

[3]Vishwanathan, V. (2015, 31 December). Fintech: redefining money transactions. Livemint. Retrieved from http://www.livemint.com/Money/qFe98IF7j5NR5sKXXrrJRK/Fintech-redefining-money-transactions.html

[4]Mendonca, J. (2016, 14 April). Goldman Sachs looks to invest in early-stage fintech startups in India. The Economic Times. Retrieved from http://articles.economictimes.indiatimes.com/2016-04-14/news/72322892_1_citibank-india-startups-goldman-sachs

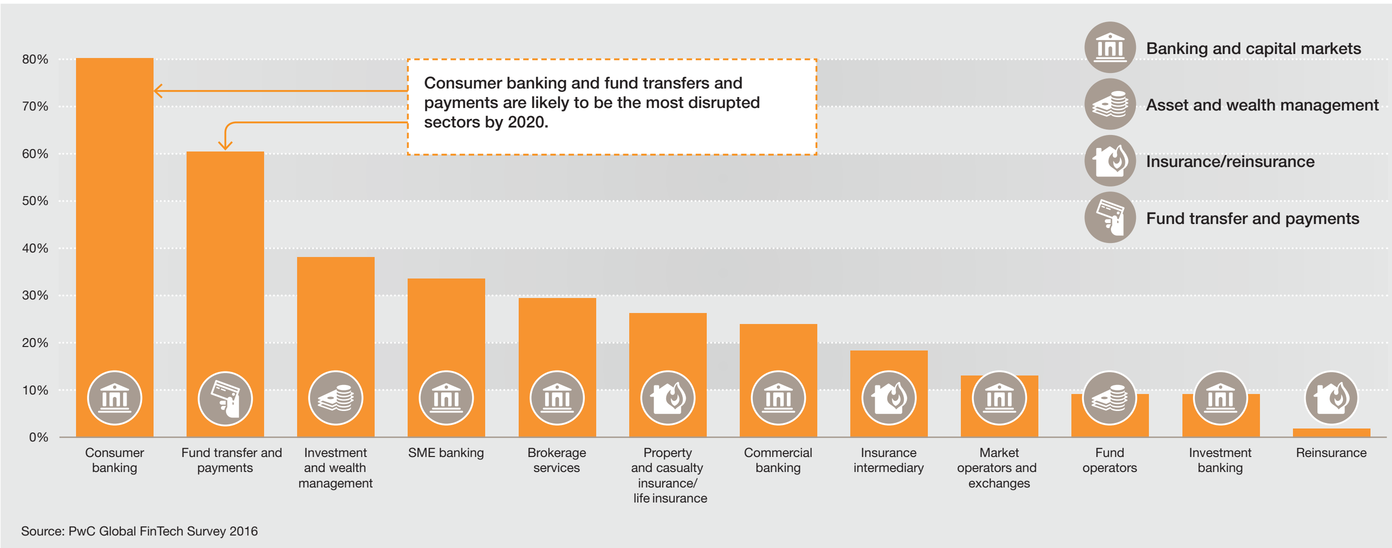
Eighty percent of the survey participants stated that they would include fintech as part of their business strategy.

The majority of our survey respondents believed that fintech would act as a strategic partner to banks, while very few considered fintech as competition.



Source: CII-PwC Banking Tech Survey 2016

Emerging fintech trends



The PwC Global Fintech Survey 2016 suggests that consumer banking and funds transfers and payments are likely to be the most disrupted sectors by 2020. Interestingly, investment and wealth management is third in the list of likely disruptions. The results for India suggest similar areas for disruption.

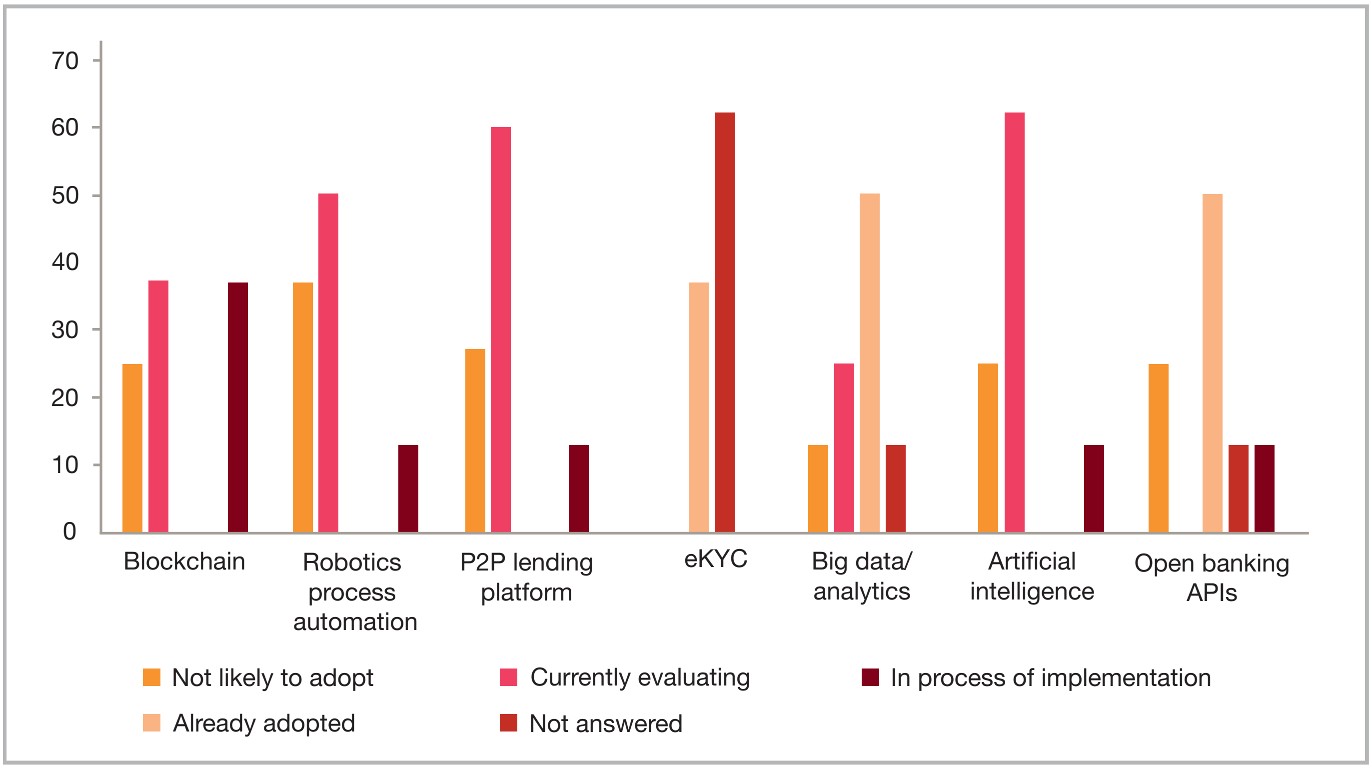
In India, fintech companies are making major inroads into a number of spaces traditionally catered to by banks:

- Innovative business models, such as peer-to-peer (P2P) and online lending, are redefining consumer access to funding. These models not only innovate in terms of customer engagement but also provide other revenue streams. P2P lenders, for instance, do not lend out their own funds but simply connect borrowers to lenders, invariably providing a sophisticated credit risk assessment and pricing service to interested borrowers. Such P2P lenders earn revenues from origination fees charged to borrowers as well as additional charges and fees associated with the loans, apart from enjoying the additional cost advantages of an online-only business. These alternative streams and savings allow for greater flexibility in pricing and loan sizing. The Reserve Bank of India released a consultation paper to regulate P2P lending platforms, further enhancing the protection for lenders on these platforms.

- Digital investment advisory models are challenging bank third-party product distribution revenues by providing superior technology and analytics-backed advisory services. By differentiating themselves on three fronts—advisory, delivery and cost—a number of start-ups are carving a niche for themselves in this space. Robo-advisors, for example, use analytical models to more accurately profile customers and provide more meaningful portfolio advisory solutions. Some players combine these wealth management services with personal finance management, thus not only providing an additional service but also getting more detailed access to customer wealth and transaction information across multiple banks and helping to build more meaningful profiles.

- The payments space is by now no stranger to innovation, with a number of Indian companies providing a host of mobile apps and products that are drawing transaction traffic away from traditional banking channels to payment platforms. Start-ups have used open development and application program interfaces (APIs) to allow for easy, quick and seamless integration of their solutions with merchants across consumer segments, thus providing consumers with easy and direct merchant payment options while sending higher traffic to merchants. Large e-wallet providers have been able to capture and sustain a share of this space through smart partnerships across industry segments, including facilitating insurance premium payments through mobile and e-wallets via tie-ups with a number of Indian insurance (both general insurance and life insurance) industry players.

While recent developments—such as the Unified Payment Interface (UPI)—provide incumbent banks with the opportunity and underlying infrastructure to develop their own response to such innovations, specialist payment players (new age fintech companies) will need to seriously consider how they can evolve in this changing landscape.



Source: CII-PwC Banking Tech Survey 2016

According to the results of the CII-PwC Banking Tech Survey 2016, while most of the banks have either already adopted or are in the process of following eKYC for customer onboarding, robotics process automation, which is gaining increasing acceptance, has emerged as one of the latest trends for which banks are still evaluating their infrastructure and technology readiness.

How customers are shaping the fintech landscape

Customer experience is one of the major drivers of the fintech revolution, and traditional financial services players need to keep abreast with the ever-growing momentum of consumer comfort with newer technologies.

Take the case of the consumer lending space. While interest rates continue to be the most important consideration while choosing a lender, customers also value superior customer experience—speed, transparency, multiple channels and customer service. The infographic below clearly shows that the significance of the digital channel is no longer restricted to millennials.

Channel preference by loan phase and generation

Incumbent banks are slower to respond to these trends owing to the burden of complex internal processes and legacy systems, apart from stringent regulations. Fintech start-ups, on the other hand, seem far more adept at playing in this technology-led space, using their size and structural advantage for faster product development and innovation in response to evolving customer needs.

The higher degree of importance accorded to customer experience by both incumbent banks and fintech start-ups is evident:

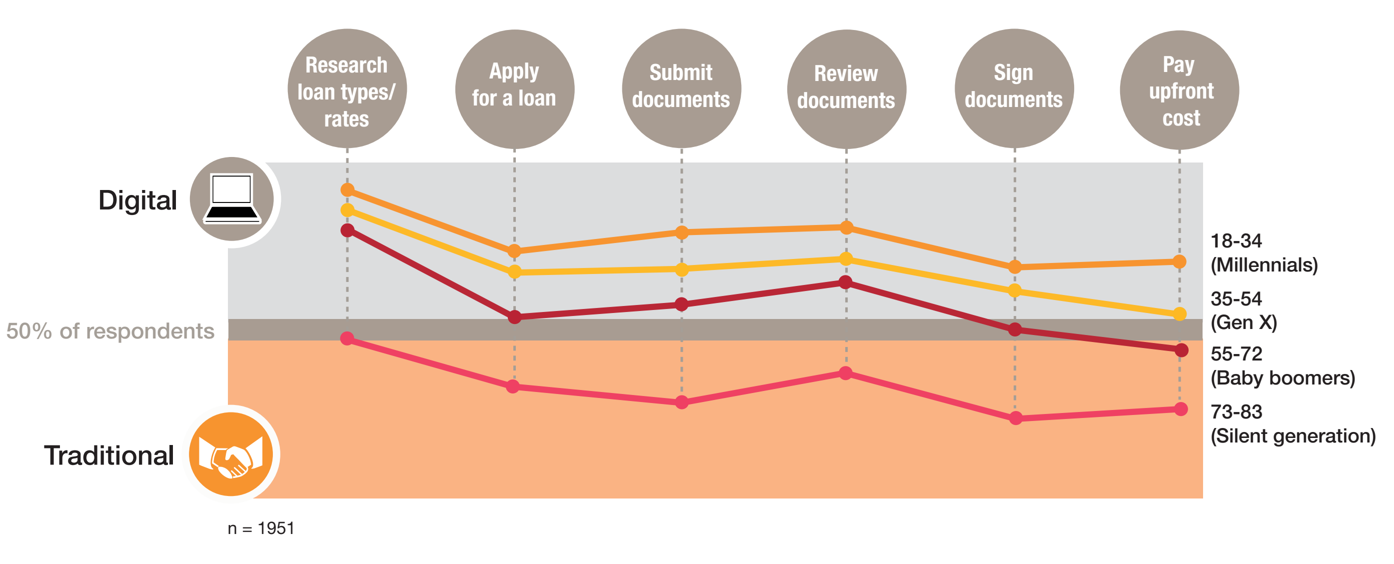
- According to the PwC Global Fintech Survey 2016, while 53% of the financial institutions believed that they were fully customer centric, over 80% of the fintech respondents felt the same way.
- Seventy-five percent of the respondents confirmed that the most important impact fintech would have on their businesses was an increased customer focus.

A number of innovative start-ups in India are redefining how banking services are delivered and consumed. A slew of players in the online lending space have capitalised on an online/mobile-first strategy not only to create more seamless customer application experiences, but also to take advantage of additional information available through these channels. Such a strategy enables them to build alternative credit decisioning models that use non-traditional data sources (such as location, purchase history, travelling history, modes of transport used as well as user's online activities, such as payment of utility bills, e-commerce purchases, and even social media behaviour). Indeed, these platforms have gained momentum and are expected to generate a significant revenue per day.

Lending is not the only space that is seeing innovation: Simple mobile apps are available in India to convert anyone into an ATM. The app can be used to locate the nearest cash points around you (people registered with a bank who are willing to provide cash), and you can request money or even apply for a small loan through a secure ID. Given the clear need for action, banks are responding to this disruption by focussing on a renewed digital customer experience and adopting new solutions to improve and simplify operations by moving away from physical channels and focussing on digital/mobile delivery.

Open source based development and software-as-a-service (SaaS) solutions have played an important role in providing banks with the ability to streamline operations, allowing for quick go-to-market solutions without heavy investment in R&D and new technologies. APIs enable third-party solution providers to integrate value-added applications and features into the banks' platforms. SaaS solutions provide greater flexibility and scope in terms of services that banks can offer, which can in turn undergo quick, seamless upgrades without major upfront capital expenditure.

While the availability of multiple digital channels fits in with the needs of today's tech-savvy millennial crowd, the key to differentiation and value would lie in providing an integrated, consistent and seamless omnichannel customer experience as opposed to disjointed multichannel customer interaction. Leveraging the access to a host of new and meaningful customer data points that such digital channels provide, banks should use the power of analytics to identify malleable propositions that can be moulded to meet very specific customer requirements. This will not only give banks a tremendous opportunity to create more 'customer delight' moments, but also open up the scope for additional services and fresh revenue streams.



Source: PwC analysis

Strike zones and their impact on normal business in banking

Strike zones are propositions that are created by deriving inspiration from the key trends in the marketplace today. These are integrated digital banking, digital lending, robo advisory, cyber and financial crime, omnichannel and customer experience, blockchain, digital payments, big data, analytics and visualisation, and robotics process automation. Some of these strike zones are detailed below.

Blockchain: The new normal for tomorrow's business

The blockchain is a new technology that combines a number of mathematical, cryptographic and economic principles to maintain a database involving multiple participants without the need for any third-party validator or reconciliation. Simply put, a blockchain is a single, shared, immutable write-only ledger of transactions that is updated when multiple, decentralised actors achieve a consensus on the validity of a participant's new entries. In our view, the blockchain technology may result in a radically different competitive future in the banking industry. There could be huge cost savings through improved efficiency in back office operations as well as large gains in transparency that could be very positive from an audit and regulatory point of view.

The banking industry is very upbeat about the blockchain

As per PwC's estimates, around 700 companies are exploring use cases of the blockchain, with around 150 of them prominent in the fintech space and 25 likely to emerge as leaders.[5] Even large multinational financial giants are exploring the various use cases of the blockchain to make banking simpler, faster and more secure. Although use cases are coming thick and fast, they are usually centred on increasing efficiency by removing the need for reconciliation between parties, speeding up settlement of trades or completely revamping existing processes.

Blockchain disrupting money

The blockchain has the potential to disrupt the banking industry to its core through its adoption for storing, lending, moving, trading, accounting, reconciling and guaranteeing money through its consensus ledger, cryptographic security and digital signature. An overview of the various use cases is presented below.

Storing money

The traditional mode of storing money/assets will be disrupted through the storage of all assets in the future as digital bearer instruments that run on multiple blockchains across the banking network. Digitally signed blocks will maintain an automated audit trail of every single amount of money stored on the network. This will reduce the cost of operations, storage and handling, and also improve transaction time.

Lending money

Loans against property can be fulfilled easily through the blockchain by lending money/assets against digitally signed property. Smart contract based triggers for loan syndication and disbursement of money against collaterals can be of great use in reducing the time of disbursal and enriching customer experience. Leading multinationals are exploring the concept of moneylending using the blockchain.

[5] PwC analysis

Accounting money

A typical accounting system follows a double-entry mechanism, where a debit and credit entry are recorded on each side of the balance sheet. The blockchain offers triple entry accounting, wherein a third timestamped entry is made. This makes the system transparent and immutable and gives auditors and other stakeholders better visibility into the health of a company.

Remittances

Remittance involves either central banks (domestic) or a nostro account where transactions involving transfer of money are completed through SWIFT (international). This usually involves a time lag and intermediary costs, which delays the process and adds significant costs. With its smart contract based algorithms and digitally signed transactions, the blockchain makes money transfer much faster and secure while also reducing the time lag for reconciliation, as the transactions are immutable and audited automatically. A digital asset management company is exploring this feature of the blockchain for international remittance.[6]

Money trading

Money trading can be disrupted using smart contracts, in a way similar to the one in which lending of money is disrupted. A leading stock exchange company is exploring money trading for pre-IPO private companies on their own blockchain product.

Money reconciliation

The blockchain inherently offers reconciliation of assets through its cryptographic hash concept, where every single transaction is immutable and holds a key to the previous transaction. Thus, money is guaranteed and highly secured in the blockchain. This helps banks reduce operational costs considerably and improves regulatory reporting and their management information system (MIS). A fully integrated, full-service blockchain security and technology firm is exploring this property of the blockchain to build solutions for better guaranteeing of money.[7]

How should the industry react to this disruption?

When faced with disruptive technologies, the most effective companies thrive by incorporating them into the way they do business. Distributed ledger technologies offer the banking industry a once-in-a-generation opportunity to transform the industry to their benefit. However, potential for disruption poses significant risks to the existing profit pools and business models. Therefore, we recommend a proactive approach to identify and respond to the various threats and opportunities that this transformative technology presents. A number of start-ups in the field are working to formulate an entirely new business model that will lead to a new wave of disruption in the industry. In our view, the ability to collaborate on both the strategic and business levels with a few key partners could become a key competitive advantage in the coming years.

Payments

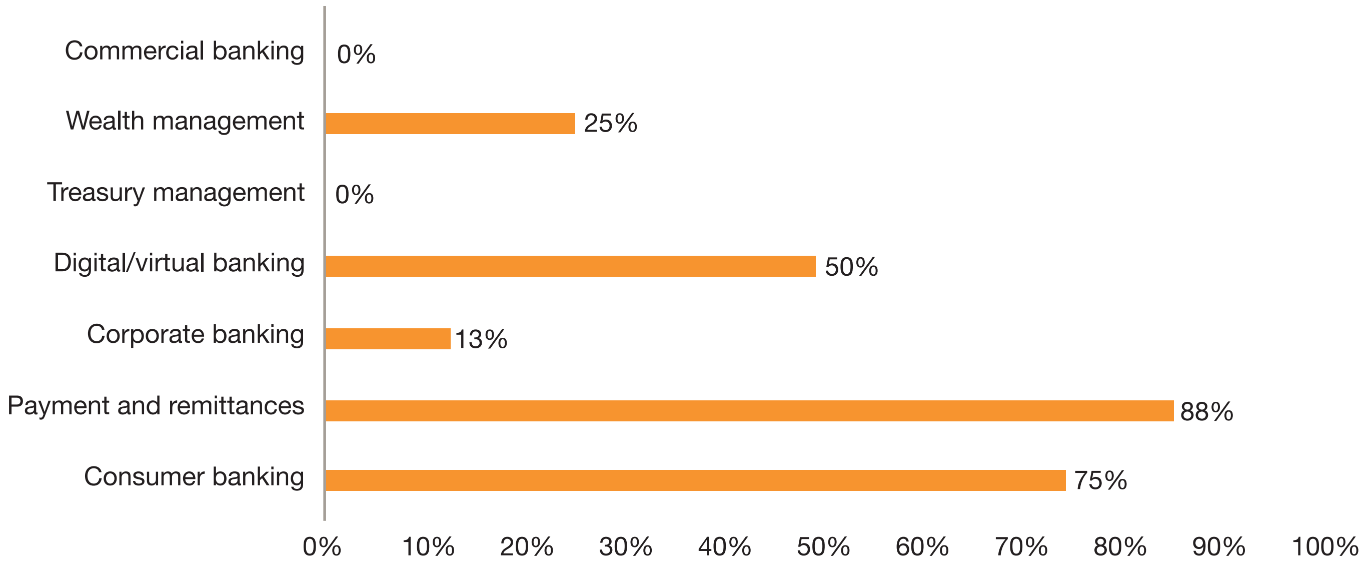
Fintech is altering the way consumer/retail and wholesale/corporate payments are made today in terms of when, where, how and who has facilitated them. Based on the continuous change in the payments world and the array of solutions it presents, it is evident that the course of the financial services payments landscape will be changed and that the lines between traditional banks and non-banking institutions will be blurred. Fintech is revolutionising the fee income business of financial institutions to such an extent that traditional players cannot merely remain mindful—they need to have a strategy in place in order to adapt to and leverage the fintech-fuelled changes.

Fintech start-ups are taking payments to the next level in terms of speed, convenience, efficiency and multichannel accessibility. They are driving client behaviour and fuelling expectations for better, faster and more innovative solutions (e.g. taxi apps) across the payments spectrum, and making existing customer relationships with banks a lot more vulnerable than ever before.

[6] PwC analysis

[7] PwC analysis

Most of the respondents of the CII-PwC survey believed that consumer banking, payments and remittances, and digital banking would face maximum disruption from fintech.



Source: PwC analysis

All sectors of payments are demonstrating innovations—the most significant and visible ones being retail payments—that are resulting in the unbundling of a range of financial services. For example, a payment services provider in Singapore has launched a new micro-payment service that enables customers to transfer funds using Facebook, mobile phones and email.[8] They have launched a new smartphone-based service, which allows payments of up to 100 SGD to any bank account in Singapore.[9] In sixteen countries, including South Africa, Zambia, Tanzania and India, the number of mobile money accounts exceeds that of bank accounts.

Let us consider the innovations in data management and security. Cloud-based solutions, for example, are flexible, cost-effective and can be scaled up to accommodate growing demands. APIs provide the tools to build solutions that integrate and combine different services and data sources. Online payment providers have demonstrated the highest degree of adoption of these technologies. A leading m-money service provider in Brazil started as a credit card business, but later replaced the actual credit card with a mobile phone that could communicate with other mobile phones that acted as the point of sale (POS) device for the merchant.

Banks have started realising that simply being facilitators of commerce will not be enough to get them through anymore. They need to equip themselves and revamp their business models in order to remain relevant to their fast evolving and tech-savvy customer base. Banks are now also exploring alliances and strategic partnerships with tech-savvy fintechs, which will help them build capabilities, ward off competition and also reposition themselves at the centre of the payments industry.

In India, a leading public sector bank has tied up with a third-party wallet player to allow customers to load wallets at the bank's ATMs, and a leading prepaid instrument issuer has created a virtual prepaid card for e-wallet users.[10]

[8] GSMA. (2015). State of the Industry report on mobile financial services. Retrieved from http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/03/SOTIR_2014.pdf

[9] The Asian Banker. (2014, 14 May). OCBC launches Singapore's first Facebook micro-payment service. Retrieved from http://www.theasianbanker.com/press-releases/ocbc-launches-singapores-first-facebook-micro-payment-service

[10] KJ, S. (2015, 3 December). Paytm and ICICI Bank to launch virtual cards for wallet users. Medianama. Retrieved from http://www.medianama.com/2015/12/223-paytm-icici-bank-virtual-cards/

Aulakh, G. (2016, 12 January). Oxigen Wallet launches mobile virtual cards powered by Visa. The Economic Times. Retrieved from http://articles.economictimes.indiatimes.com/2016-01-12/news/69704599_1_card-mobile-wallets-mobikwik

Marketplace lending

Online lending platforms (P2P) have become a buzzword in the consumer lending space. They rely on alternative methods and non-traditional data for customer credit scoring, which they use together with data analytics to make more informed, intelligent and quick decisions on the credit worthiness of borrowers. This has resulted in the lowering of overall operating costs.

Among the benefits that most banks envisage from fintech, for the majority, 'enhancement of customer experience' and agility to 'adapt to changing customer needs' should be the main focus.

A number of online marketplace lenders have made lending as easy as an Internet search—one can just enter some information online and have a loan approved within a few hours. This is the transformative power of fintech. Marketplace or P2P lending is growing in popularity with borrowers because of its perceived low interest rates, simplified application process and quick lending decisions. Alternative lenders today account for nearly 10 billion USD of the 600-billion USD small business lending market.[11]

By moving lending online, P2P lenders are able to generate cost advantages of over 400 basis points compared to traditional financial institutions. Brick-and-mortar offices constitute 30–35% of the total operational expenditure, hence raising the cost of operations. Additionally, traditional loan origination practices are less efficient than those of online marketplaces. This built-in cost advantage enables P2P lenders to offer better prices consistently. This cost-efficient structure and the user-friendly experience are working strongly in favour of P2P lenders. It is predicted that loan originations will reach 1 trillion USD by 2025, with the share for marketplace lenders growing exponentially from the current 2%.[12]

Marketplace lenders are currently not subject to regulations and are leveraging opportunities in the financial system without paying the cost. While P2P lenders have created significant play for themselves in the industry, primarily by banking on shifting demographics and new technologies, they will soon be bound by regulatory scrutiny and increased competition from banks and traditional lenders.[13] This will ultimately lead to P2P lenders reassessing some of their practices, at the expense of losing current advantages such as the cost structure either on their own or in partnership with traditional players.

The banking community too is taking notice of these emerging players as they are not only restricted to small-ticket loans which might not hamper the bank's core business but are also becoming a potential threat to the bank's existing customer base. Banks can either decide to compete or collaborate with them. Collaboration could consist of purchasing loans as an investor or forming alliances, while competing could involve banks learning from the business model of fintech organisations and adopting the best practices to attract customers. Whether the banks choose to collaborate or to compete, the use of cutting-edge technology and customer focus are areas where banks will need to strategise their offerings in order to be relevant. Currently, a large proportion of institutional investors have already allocated capital to this space, and many have shown significant interest in investing in this type of lending in the future.

There are multiple examples of a collaborative approach between P2P lenders and traditional lenders. For example, a US-based lending company has partnered with an online marketplace lender to provide loan products to members who struggle to qualify for traditional financing. Thus, in our view, marketplace lending in the future will entail collaborative efforts, with traditional financial institutions and P2P lenders each learning from the other's core strengths and raising the stakes of their own game, thereby benefitting the end customer.

[11] Schaus, P. (2015, 10 December). Will online lenders disrupt small business banking? Banking Exchange. Retrieved from http://www.bankingexchange.com/news-feed/item/5795-will-online-lenders-disrupt-small-business-banking

[12] PwC. (2015). Peer pressure: How P2P lending platforms are transforming the lending industry. Retrieved from http://www.pwc.com/us/en/consumer-finance/publications/peer-to-peer-lending.html

[13] RBI. (2016). Consultation paper on peer to peer lending. Retrieved from https://rbidocs.rbi.org.in/rdocs/content/pdfs/CPERR280416.pdf

Fintech: Friend or foe of banks?

According to the CII-PwC survey 2016, 80% of the leadership felt that fintech is or will be a strategic partner to banks. Seventy-five percent of the respondents believed that fintech can help in developing insights by leveraging analytics and big data, and providing new and improved offerings to adapt to customer needs. More than 75% of the banks are involved with fintech companies whose services are focussed on consumer banking, payments and remittances.

Banks have the two Cs which fintech start-ups want but cannot easily acquire—customers and capital

The rise of fintech is expected to displace banks. However, financial institutions would benefit from viewing fintech companies less as rivals and more as innovative businesses which they can collaborate with and learn from, and even partner with. Such steps would usher in an era where collaboration and not competition helps spur the growth of both traditional and fintech players.

In the current financial service ecosystem, legacy banking organisations will turn irrelevant unless they adopt the digital transformation route, which can bring in a fresh perspective for targeting customers, ensure agile operations and allow reinvention at every stage, thus enabling these organisations to remain on par with, if not ahead of, the competition.

Both banks and fintech have their positives and negatives, and instead of working in silos and attempting to target the same customer segments, they will benefit from cooperating and combining their positives to compensate for each other's negatives. Banks can provide a rapid reach with significant funding and support, and sustain customers' growing demands. The fintech sector, on the other hand, can offer the most efficient customer service solutions.

Besides capturing technology disruptions and innovations, fintech companies can identify various use cases for technology adoption. Thus, they are able to create a value proposition which is both appealing and cost-effective for customers. Banks, on the other hand, are not able to focus on such innovative utilisation of technology and hence stand to lose clientele to upcoming fintech organisations.

Banks have a larger customer base and loyalty that has been built over the years. They also have strong financial backing that allows them to invest in upcoming trends and ideas that are beyond the reach of fintech organisations.

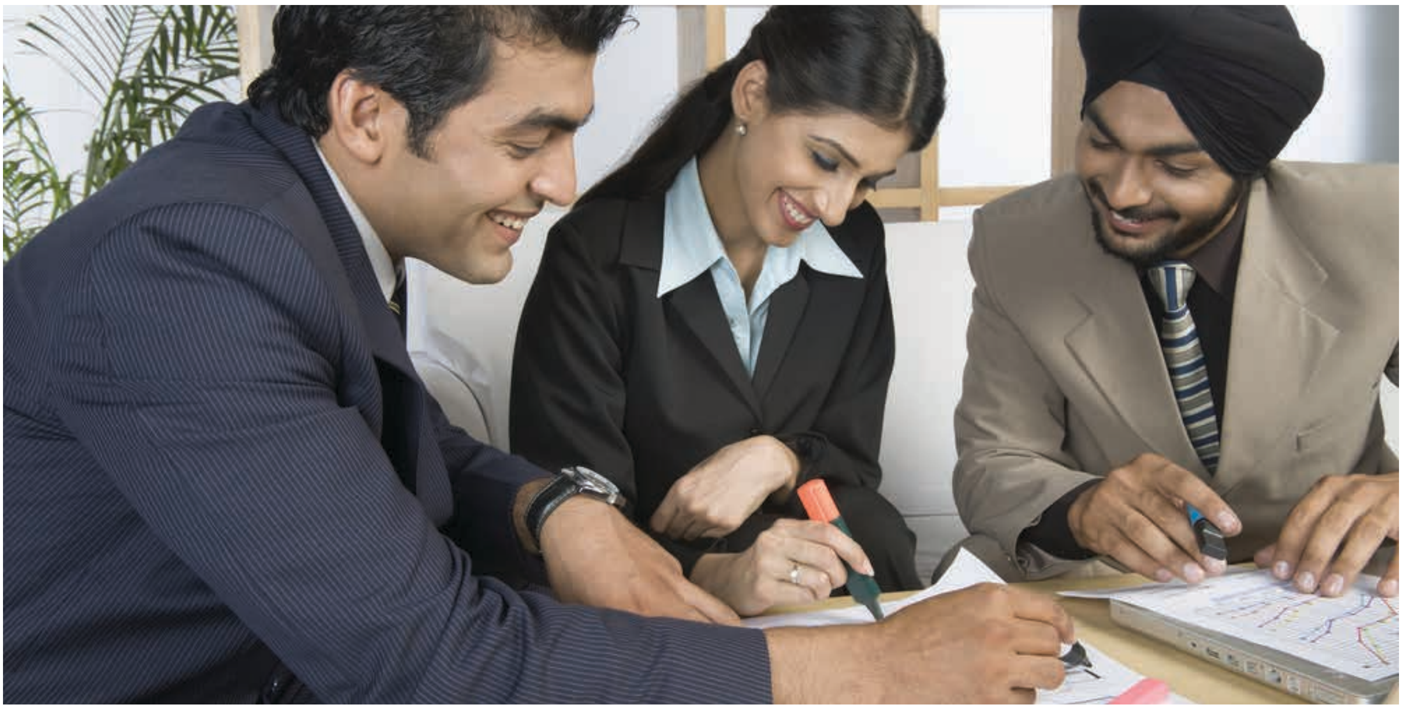
In short, the fintech sector offers innovation and disruptive technology, while banks can drive customer demand. It is therefore up to banks to leverage these concepts and disruptive ideas from fintech and attempt to adopt them into their mode of banking. Banks will thus consume and integrate fintech ideas into their normal course of business rather than collaborate with fintech companies.

This can be a reality if:

1. Banks create programmes to incubate fintech start-ups in order to understand their revolutionary approach towards traditional banking.

2. Banks help to set up venture funds for fintech start-ups in order to promote disruptive innovations in the financial services domain.

3. Banks partner with fintech companies to come up with joint propositions to enhance the overall banking experience for a customer and ensure that they stay ahead of the competition.



Rapid innovation framework

The process of identification of fintech companies and their alignment to the business goals is critical to any bank. Banks should follow an eight-step process to target rapid innovation using fintech.

Step 1 - Establishing the universe of opportunities

Based on preliminary research using sources such as industry reports, web research and industry relationships, identify an exhaustive list of opportunities which the bank could look at.

Step 2 - Culling the bank's strike zones

Calculate the attractiveness of the opportunity based on market characteristics, expected benefits and ease of implementation to assess the congruence with the bank's strategy. Evaluate market effectiveness based on funding activity, M&A activity, competitive activity and trends analysis. Calculate the benefits to the bank in terms of strategic, tactical and operational benefits to identify the impact and profitability on business. Calculate the ease of implementation in terms of cost, technological readiness and time required.

Step 3 - Scan and scout: Developing a longlist of companies in the bank's strike zones

Create an exhaustive list of companies catering to the bank's identified strike zones with critical parameters such as founding year, core proposition, team strength and others to gather a multitude of information regarding the companies.

Step 4 - Shortlisting target companies for the bank

Perform value mapping to engage with fintech executives to understand the concept of their business and seek to align synergies with the bank's strategic interests. Perform thorough due diligence to understand the commercial, financial, risk and technology aspects of the fintech business. Shortlist the companies fitting all the said criteria.

Step 5 - Design the engagement model for the shortlisted target companies

Draft the engagement model for each of the companies and prepare a roadmap to synergise it with the bank's strategy and business.

Step 6 - Running rapid innovation proof of concept (PoC) sprints

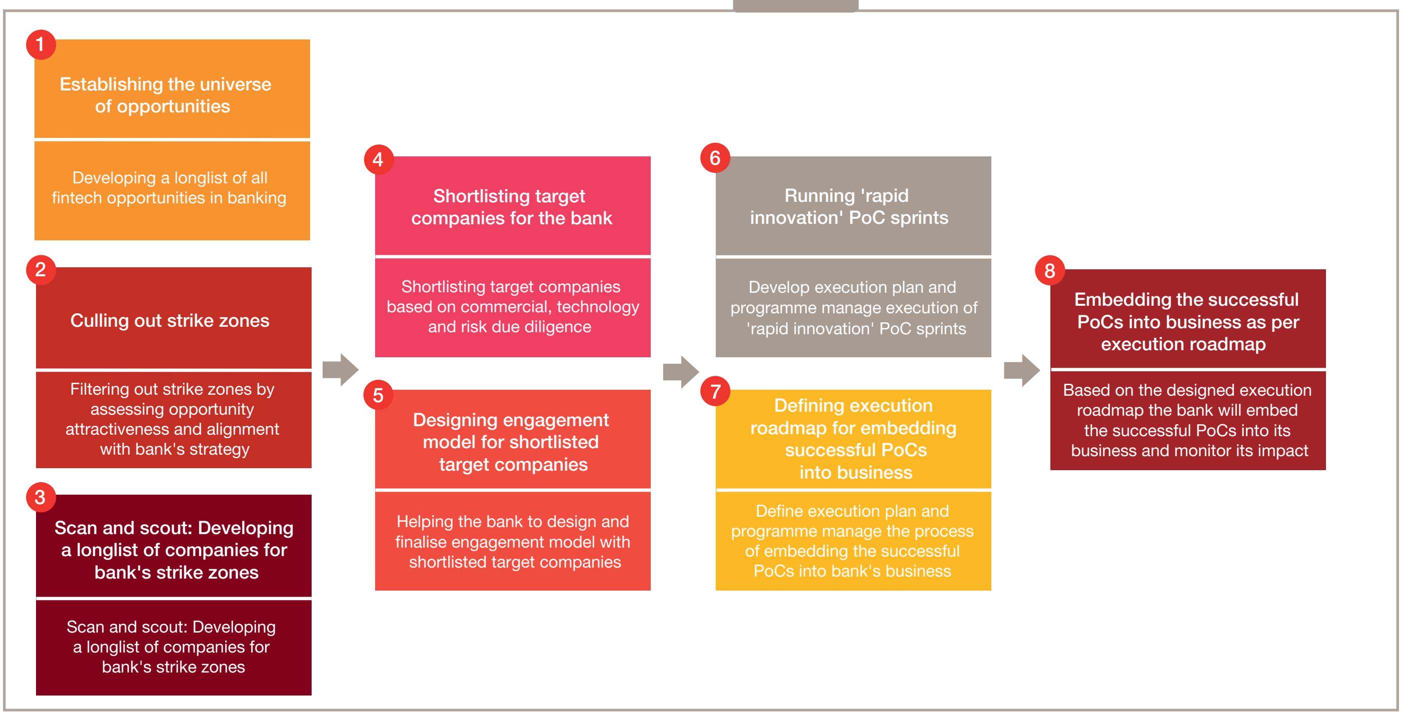
Define and implement PoCs across the shortlisted fintech organisations to select those most suitable for the bank's business.

Step 7 - Define execution roadmap for embedding successful PoCs into business

Define a clear objective for the execution of the fintech company, enlisting the commercial model, activity list, milestones, timelines, process flows and technology architecture.

Step 8 – Embed the successful PoC into business

The bank should then begin the transition process for embedding the fintech company into its ecosystem.



Fintegration

Fintech start-ups have definitely brought significant disruptions to the way the world banks today, specifically in the areas of payments, credit and personal financial advice. However, emphasis on changes in customer preferences, technology advancements and growing interest in fintech, along with significant investments by the corporate world, have set the platform for an even more radical transformation. The future of banking will focus on providing cheaper and easier-to-use propositions to end customers.

Banks must continue to enhance customer experience through their journey of digital transformation, but instead of undertaking this journey alone, they should partner with fintech by utilising their innovations in their day-to-day functioning. Upon analysing their core strengths and weaknesses, banks need to associate and partner with fintech start-ups which can bridge the gaps and thus create a win-win situation for both.

There is the single core message to both banks and fintech—collaboration is key.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, the Government and civil society through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8,000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 2,00,000 enterprises from around 240 national and regional sectoral industry bodies.

CII charts change by working closely with the government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialised services and strategic global linkages. It also provides a platform for consensus building and networking on key issues.

Extending its agenda beyond business, CII assists industry in to identifying and executing corporate citizenship programmes. Partnerships with civil society organisations carry forward corporate initiatives for integrated and inclusive development across diverse domains, including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2016–17, 'Building National Competitiveness', emphasises industry's role in partnering with the Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human development, Corporate Integrity and Good Citizenship, Ease of Doing Business, Innovation and Technical Capability, Sustainability, and Integration with the World.

With 66 offices, including 9 Centres of Excellence, in India, and 9 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, the UK, and the US, as well as institutional partnerships with 320 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

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