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The Future of Money Management

Part 1: The opportunity in saving and investment

Contents

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1.1

The ~~future~~ present

It is no secret that many established financial services business models are under immense pressure.

Unfavourable macro environmental factors, increased competition from challengers and technology legacies are all weighing heavily on incumbents.

While some of these developments are presented as problems of the future, the industry is already undergoing a transformation of seismic proportions.

The threat is real

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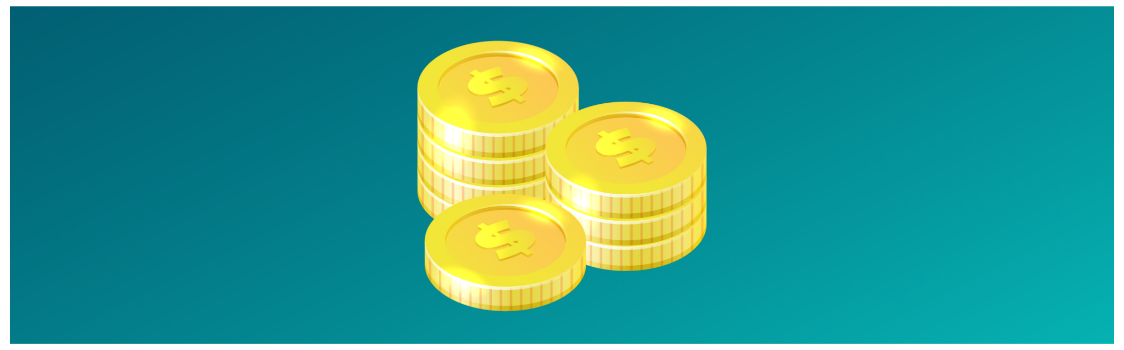
Incumbents are losing market share to challengers, have limited capacity to diversify their revenue streams and are under pressure from monetary policy influences.



Outside the industry

Financial performance under pressure

Low, zero, or negative central bank interest rates make it costly to maintain bloated balance sheets.

The potential to affect the financial bottom line is tightly capped by thin margins of balance sheet related activities.

Negative effects on return on equity and a highly constrained ability to generate revenue.

The threat is real

Within the industry

Competition on UX and price

Digital-first platforms from tech and challenger brands are entering the finance space with superior customer experiences.

Challengers are offering previously chargeable services for free while regulation and comparison platforms have increased transparency around fees and costs.

Loss of market share to challengers due to shifts in customer behaviour and expectations.

The threat is real

Within organisations

Internal efficiency bottlenecks

Increasing layers of regulation continue to add headcount and divert resources from client-servicing to compliance-adherence.

Legacy-heavy infrastructures and prolonged underinvestment into technology stand in the way of cost-reducing innovation.

Operational constraints limit the capacity to streamline and modernise current business models.

1.1

1.2

How digital-first players are succeeding

Winning or surviving means addressing multiple issues at once:

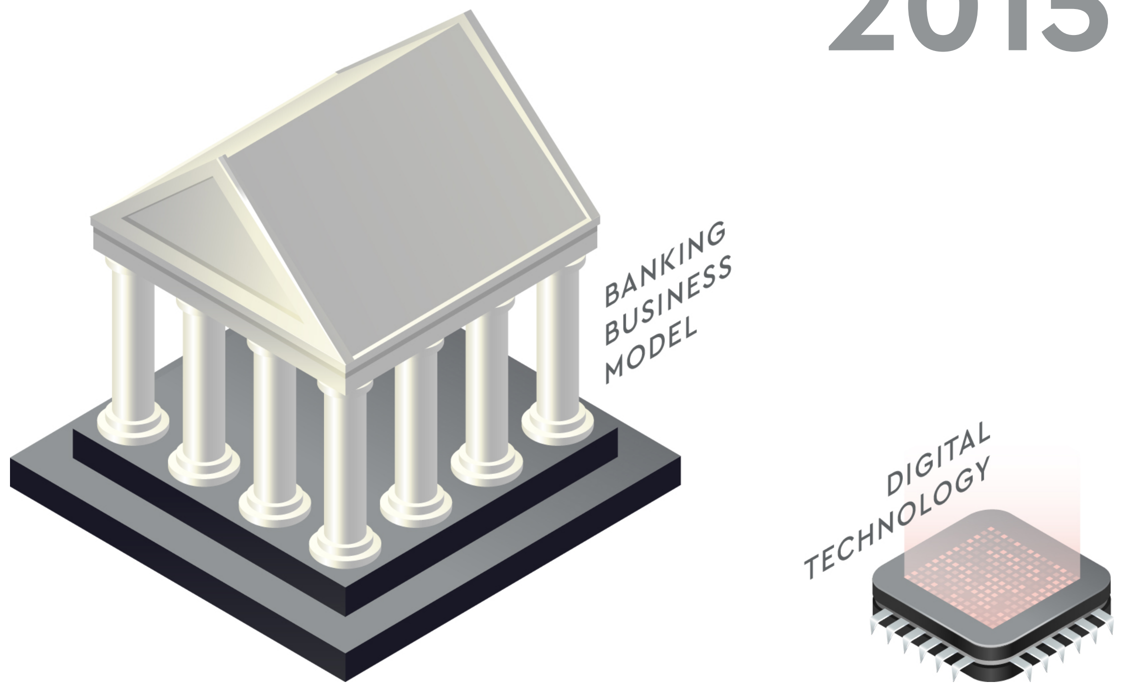
- Reacting to macro environmental stressors that affect your bottom line and your ability to generate revenue.
- Adapting to changing client needs to prevent loss of market share and attacks from challengers.
- Undoing your internal efficiency blockers that stand in the way of substantial and real innovation.

This sounds like a significant challenge. And it is, but there are ways incumbents can take action. There are others who are doing it already.

They have digital-first business models

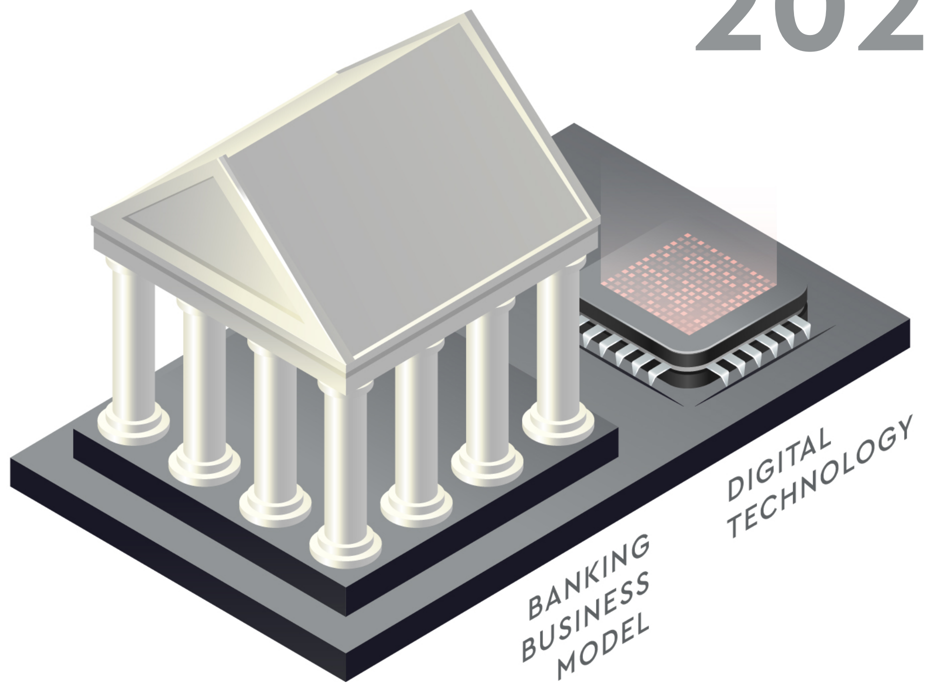
In traditional organisations, technology is often still an afterthought to the design of a business unit or launch of a product. In a digital-first organisation, the business model and technology are intrinsically linked and are built to grow and evolve in sync.

2015



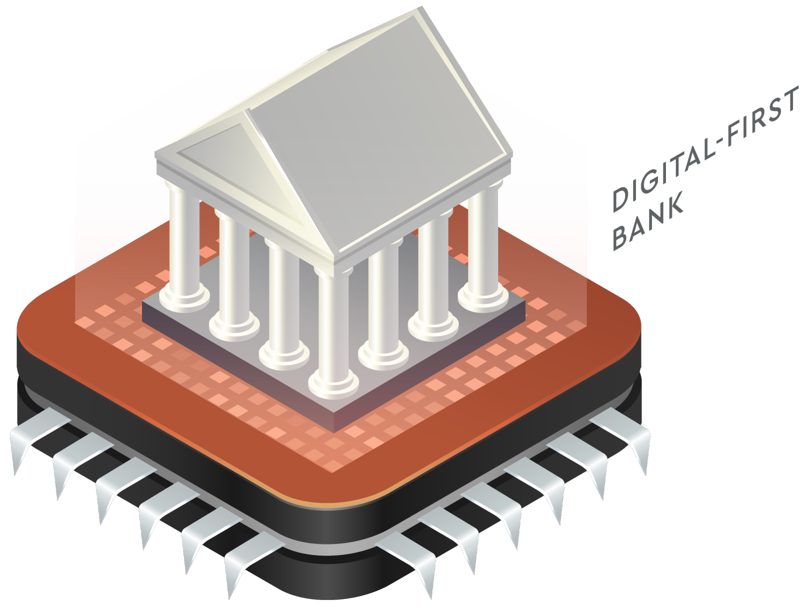
Digital Commerce

2020



Digital Operating Model

2025



Digital Business Model

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They think client-first

Instead of thinking about products, digital-first banks are focussing on being helpful to their customers. Based on a strong technology foundation, a digital business model puts the client at the centre of attention and breaks up legacy silos.

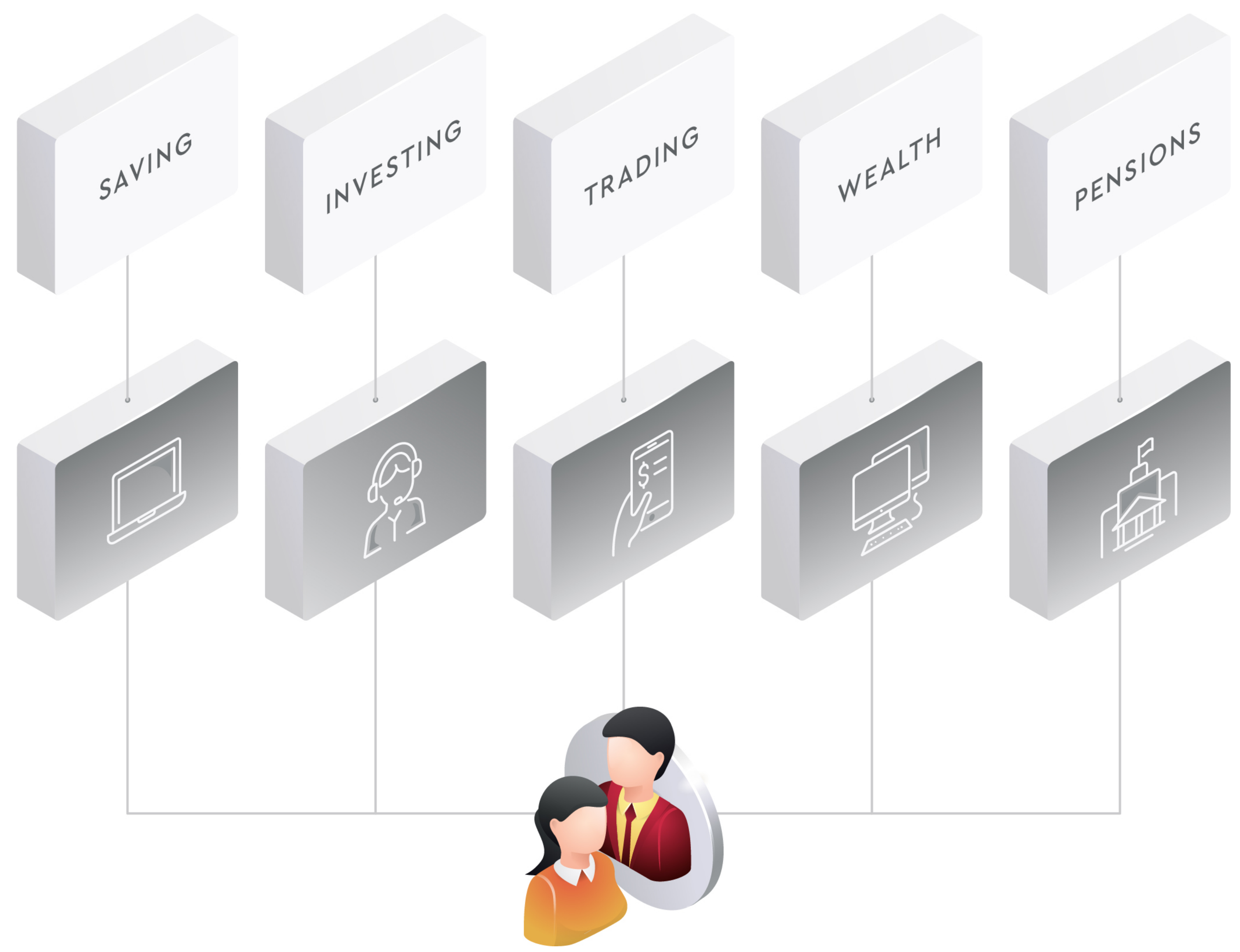
Static operational model

One-size-fits all-isolated silos

Isolated **product offering**

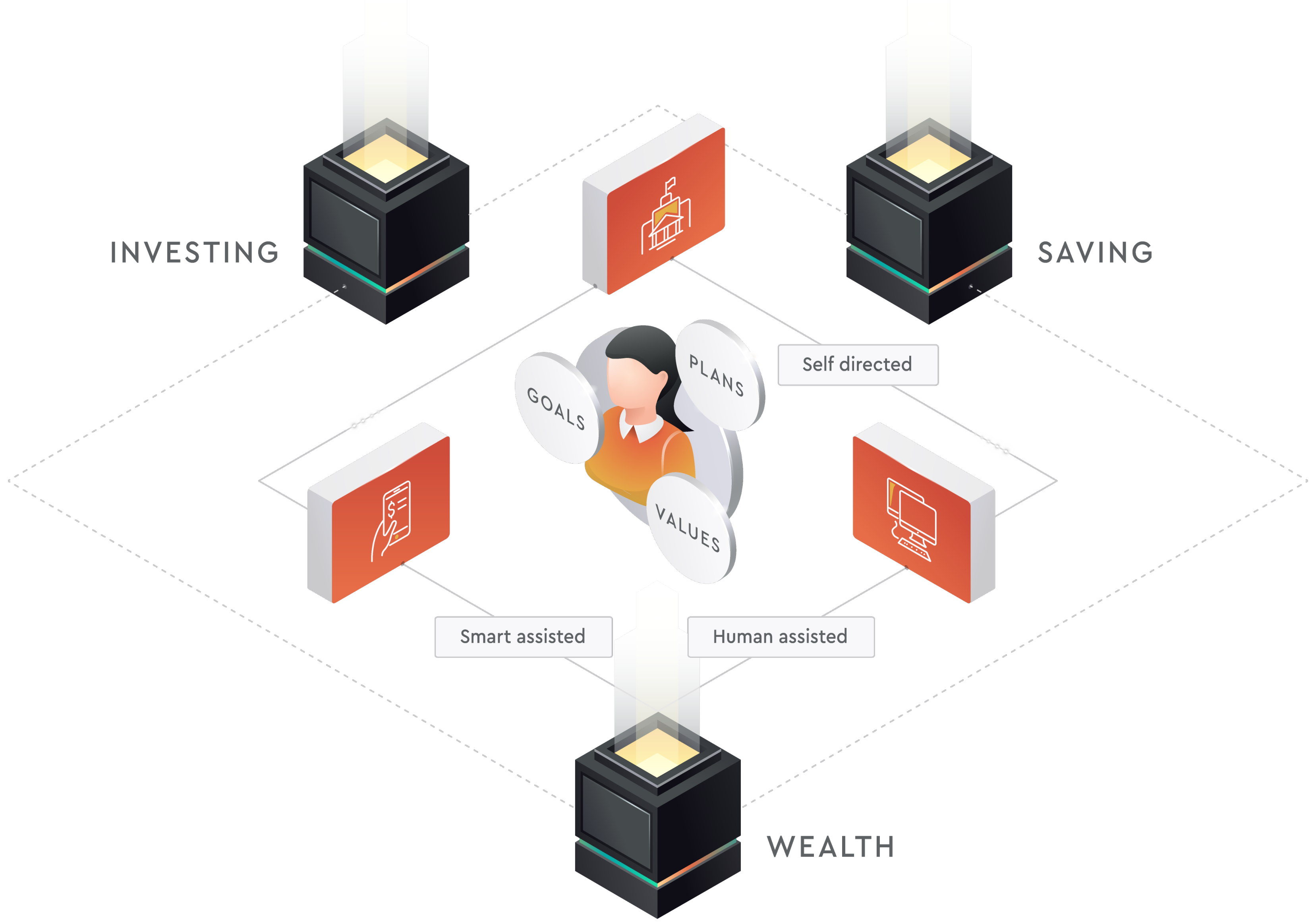
Siloed **engagement channels**

Singular **client personas**



Digital business model

Customer-centric propositions at scale



Outcome-oriented **product ecosystem**

Tailored **engagement possibilities**

Client-specific **value propositions**

1.2

In sum: they execute new offerings better

They execute new offerings better

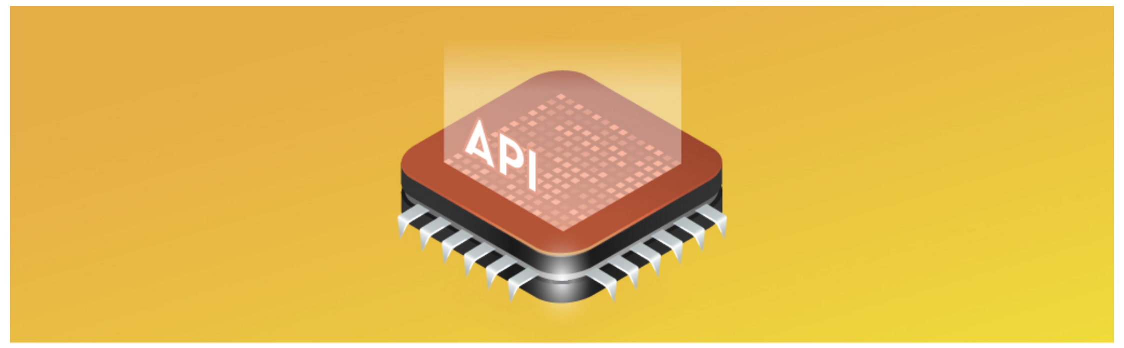
by focussing on user outcomes and user experiences instead of products.

In a bank, the departments for their different products are all siloed, separate functions. That only makes sense if you think like a banker and care about the difference between saving for a house or investing for a house, because they are regulated and administered differently with different revenue streams. The end client only cares about the house and not about the products they use to get there.

For most consumers, a bank is just a means to an end: ensuring a secure retirement or growing a business. By attending only to the product-related part of the overall journey, considerable value is left on the table.

To draw customers from incumbents, digital banks differentiate themselves on identifying clients' needs and making them their experience's prime focus.

In sum: they add new offerings



They add new offerings

that broaden the revenue base without bloating the balance sheet.

Based on their technology flexibility, digital banks have an opportunity to reach beyond core banking activities. They can integrate new offerings and cross-sells by tapping into an ecosystem outside the core of banking products.

Insurance, crypto, trading, investing and saving features are just switched on as a tile in your app, alongside third party offerings integrated through marketplaces.

Experiences are designed with future adaptability in mind and built in a modular API-based architecture. Modules or partners are added quickly to respond to changing consumer behaviours and demands.

Hence, digital first banks are more able to react to and exploit untapped revenue opportunities that they discover.

In sum: they operate efficiently

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They operate efficiently

by staying operationally lean as technology and business evolve in sync.

In traditional organisations, technology is often still an afterthought to the design of a business unit, launch of a product or creation of a process.

In successful organisations, the business and its technology are inseparably linked. Experiences are built digital first and are not adaptations from offline workflows.

It's the difference between "This is the process, how can we make this thing "digital"?" and "What does the customer want to achieve and what's the easiest way they can do this, in the most convenient channel?"

Most importantly, as your unit economics are low, you are able to have personalisation inbuilt as a standard aspect of the customer experience.

Some things can't be fixed

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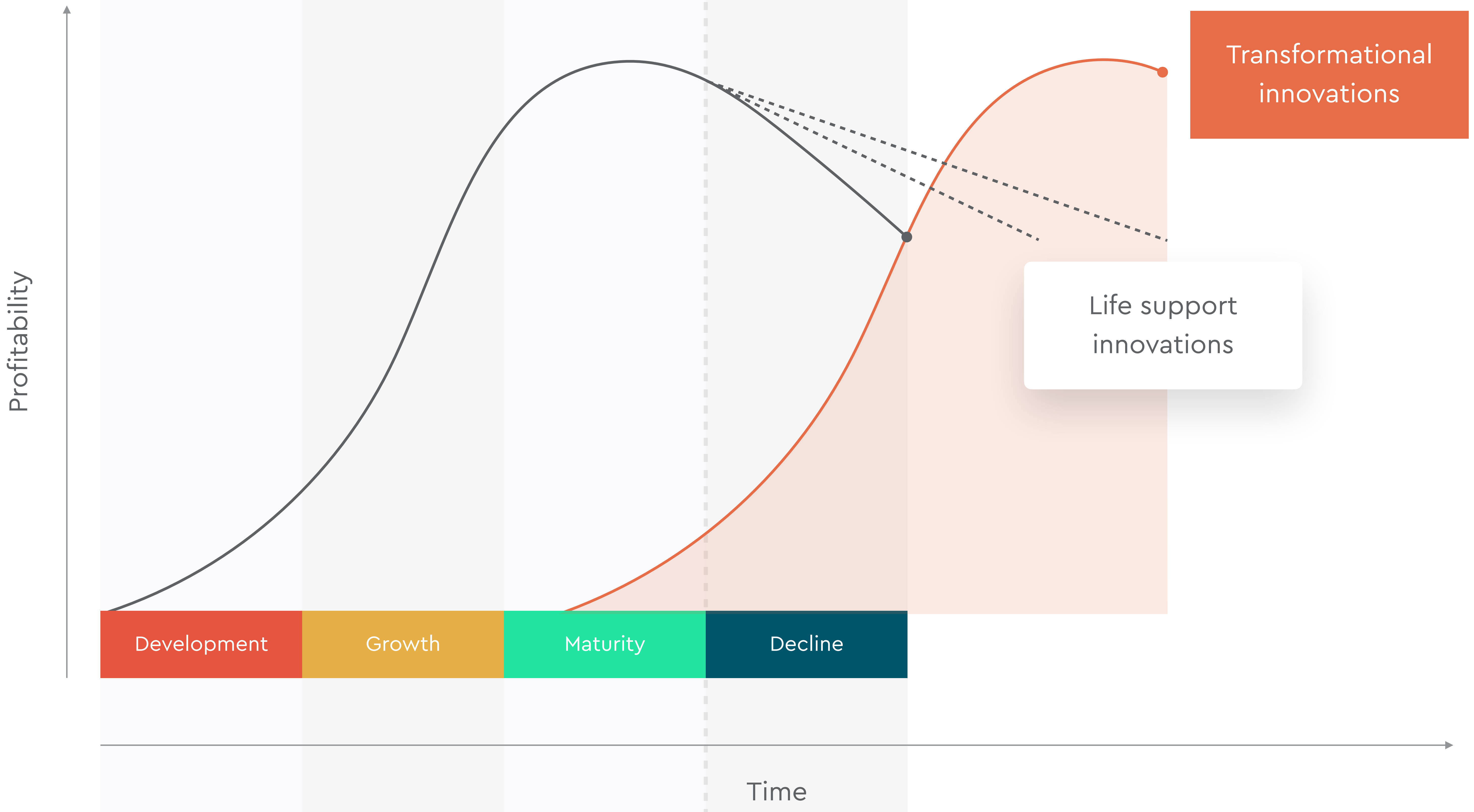
Technology plays an integral part in improving existing processes and enabling new business activity. However, often organisations tend to apply fixes to what are essentially unreformable systems.

In legacy-heavy IT infrastructures, applying piecemeal patches can only extend the lifetime of assets for so long. Eventually, a transformational shift in the operating and business models and the underlying technology is inescapable.

Financial services organisations have to be prepared to build and launch **new propositions, with new commercial models, based on new technology** if they want to succeed.



1.3

The digital-first money management opportunity: saving & investing propositions

The changes of consumer behaviour can be best analysed by looking at the propositions that clients are turning to – when they're turning their back on their existing banking providers. From entry-level savers to high-net-worth individuals, customers continue to seek out digital offerings that cater to a specific need.

As retail banks already have these individuals as their customers, the opportunity to provide solutions that they are currently finding elsewhere is huge. Ever more so as the associated revenue models provide returns that far exceed traditional balance-sheet related activities.

Inactive clients become micro savers

Entry level clients accumulate funds for goals and causes through highly intuitive user experiences.

moneybox	monzo	Revolut
~400k	~4.5m	~8m

Users: total adoption 06/2020

Savers become investors in goal-based propositions

Millennial and Gen X clients engage with investing for personal goals through automated propositions.

Wealthfront	Betterment	acorns
~350k	~500k	~7m

Users: total adoption 06/2020

The rise of the micro-trader

Meteoric user growth of commission-free, high engagement trading platforms during times of market volatility.

Freetrade	Revolut	Robinhood
~150k	~400k *	~13m

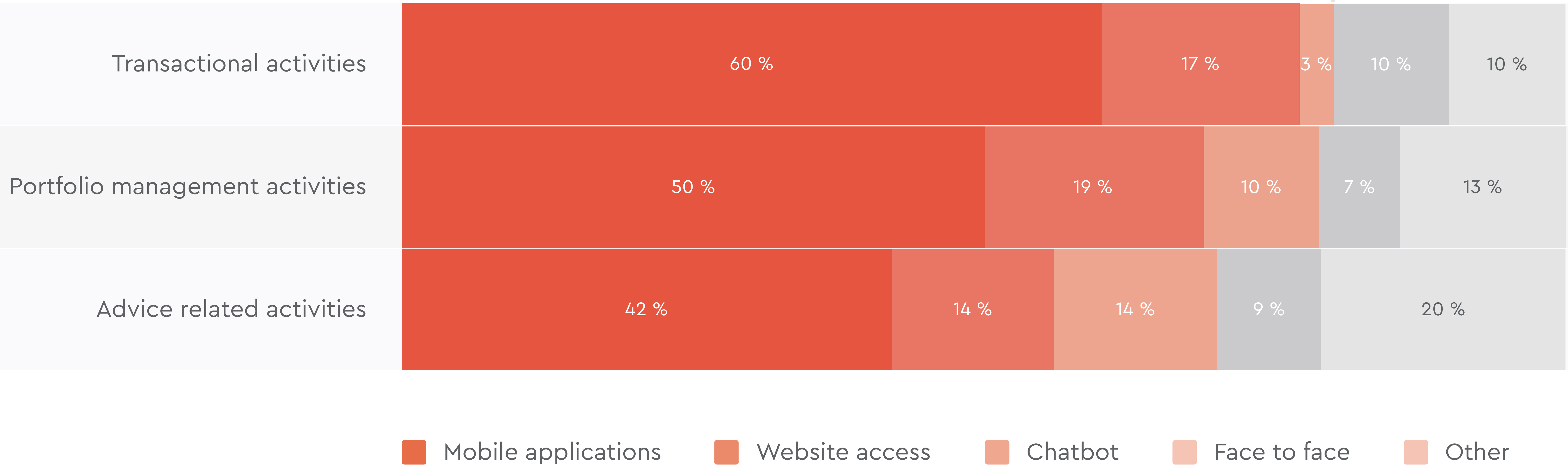
Users: total adoption 06/2020

* in trading offering

Changing expectations of digital-first HNWI

Even high-touch human-based advice needs to go digital to be attractive and commercially viable.

Wealth Management clients prefer interacting digitally



EY 2019

The saving & investing opportunity

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Give customers what they want.

A growing number of customers are looking for support with their finances through intuitive money management propositions – but are left out in the cold by their banks.

78 %

of retail customers are interested in receiving investment advice from their bank.

J.D. Power 2019

82 %

of retail banking clients are not actively investing any funds with their bank or elsewhere.

Finextra 2018

Strengthen your financial bottom line.

Investment, asset management and advice products shift idle funds off the balance sheet and beat capital intensive provisioning activities almost four-to-one on returns.

6 %

ROE of Balance Sheet provisioning activities

22 %

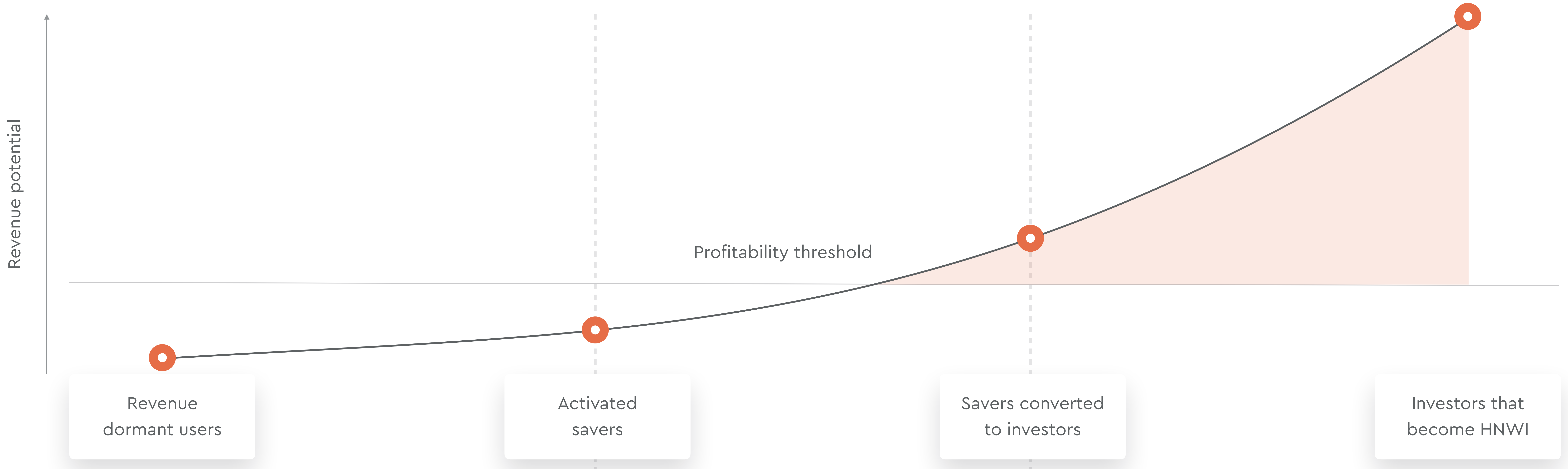
ROE of Origination and Sales activities

McKinsey 2016

1.3

Money management means growing together

Banks have a unique window of opportunity to form close relationships with their customers through digital solutions that take users on a lifelong journey.



The Future of Money Management

Thanks for reading Part 1 of our series on the Future of Money Management. Keep an eye on your inbox for the next instalment and head over to our hub to find out more.

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