Blurred lines: How FinTech is shaping Financial Services

Views from Ireland

69% of Irish financial services organisations are putting FinTech at the heart of their strategy.

25% of Irish financial services organisations will lose more than a fifth of their business to FinTech by 2020.
Key messages for Ireland

- **FinTech is fuelling disruption in financial services**
- **A quarter of Irish respondents revealed they will lose more than 20% of their business to FinTech by 2020**
- **Irish companies are more likely to respond to many of the key trends in financial services compared to global counterparts, with meeting changing customer demands being top of mind**
- **Irish companies are more inclined to put FinTech at the heart of their strategy compared to global companies**
- **FinTech will be a great opportunity to keep the cost base down**
- **Blockchain is an untapped technology and is rewriting the financial services rulebook**
- **But there are even greater opportunities as a quarter of Irish companies currently still do not deal with FinTechs**
Executive summary

We are delighted to present our first Irish FinTech study assessing the rise of new technologies in the Irish and global financial services sector. We highlight the potential impact of FinTech on market players and their attitudes to the latest technological developments. Additionally, the study showcases some of the strategic responses to this ever-changing environment. This report is based on the views of over 500 respondents from 46 countries including over 50 from Ireland across all areas of financial services: banking, insurance, asset and wealth management, fund transfer and payments institutions as well as FinTech companies.

FinTech is a dynamic segment at the intersection of the financial services and technology sectors where technology-focused start-ups and new market entrants innovate the products and services currently provided by the traditional financial services industry. FinTech is gaining significant momentum and causing disruption of the traditional value chain. Cutting-edge FinTech companies and new market activities are redrawing the competitive landscape, blurring the lines that define players in the financial services sector (see Figure 1).

Figure 1: FinTech is a complex ecosystem

Source: PwC
The study reveals some interesting insights for Ireland. While on the one hand the impact of disruption is clear with a quarter of Irish financial services organisations indicating that they believe they could lose more than 20% of their business to FinTechs by 2020. On the other hand, with over two-thirds of respondents (69%) putting FinTech at the heart of their strategy, Irish financial services companies are set for a fundamental shift in how they do business in the future. And there are many opportunities such as improved customer experiences, cost reduction and additional revenues by collaborating with FinTechs and adopting their technologies and business models. There are also opportunities for incumbent institutions to leverage their current relationships with customers and their access to extensive banks of consumer data. The survey further highlights that Irish financial services organisations are more likely to respond to the many important emerging FinTech trends such as data analytics, faster payments and transaction security.

The main impact of FinTech will be the surge of new financial services business models, creating challenges for both regulators and market players. By focusing on incorporating new technologies into their own architecture, traditional financial institutions will continue to play a central role in the new world of financial services.
1. Disruption on the way

The disruption of the financial sector is clearly underway. A quarter (25%) of Irish respondents believe that they will lose more than 20% of their business to FinTechs by 2020. This compares to 28% globally. In Ireland, the banking sector is feeling most pressure from FinTech companies believing they could lose 25% of their business by 2020 (Insurance: 20%; Asset and Wealth Management: 16%).

The majority of our survey participants, globally and in Ireland, see consumer banking and fund transfer and payments as the sectors most likely to be disrupted over the next 5 years. In consumer lending, for example, there has been the emergence of online platforms allowing peer-to-peer individual and corporate lending. Lending innovations can also be seen in alternative credit models, use of non-traditional data sources and powerful data analytics to price risks and lower operating costs. The payment industry is also experiencing a high level of disruption with the surge of new technology-driven payment processes, new digital applications and the increased use of mobile devices to transfer money between accounts. Disintermediation appears to be Fintech’s most powerful weapon. It is interesting to note that in Ireland only 12% of respondents believe that commercial banking will be disrupted by FinTech over the next 5 years compared to 21% globally.

Meeting changing customer needs is fuelling disruption

As consumers become accustomed to the digital experiences offered by companies such as Google, Amazon, Facebook and Apple, they expect the same level of customer experience from their financial services providers. FinTech companies are driving disruption with solutions that can better address customer needs by offering enhanced accessibility, convenience and tailored products. Our survey shows that the most important impact FinTech will have on respondents’ businesses is an increased focus on the customer. It is interesting to note that Irish respondents feel that they are doing better than their global counterparts in terms of delivering customer centricity with nearly two-thirds (65%) confirming that they are fully or very customer centric (Global:58%). This figure for Fintech companies is broadly similar. Other key business areas where FinTech is having an impact are leveraging data analytics and enabling sophisticated operational capabilities.
In which areas do you see the most important impact to your business from FinTech in Ireland?

- Meet changing customer needs with new offerings: 63%
- Leverage existing data and analytics: 48%
- Enhance business with sophisticated operational capabilities: 44%
- Enhance interactions and build trusted relationships: 27%

Source: PwC Global FinTech Survey 2016

Figure 6: How do you rate your company in delivering true customer centricity?

Ireland:
- Fully: 22%
- Moderately: 27%
- Slightly: 8%
- Very: 43%

Global:
- Fully: 18%
- Moderately: 32%
- Slightly: 8%
- Very: 40%

Do not know: 1%
Not at all: 1%
2. Blockchain: an untapped technology rewriting the FS rule book

Blockchain is a new technology that combines a number of mathematical, cryptographic and economic principles in order to maintain a database between multiple participants without the need for any third party validator or reconciliation. In simple terms, it is a secure and distributed ledger. According to the survey, 86% of Irish respondents are at best moderately familiar with blockchain (Global: 83%). This lack of understanding may lead to underestimating the potential impact of blockchain.

In our view, blockchain technology may result in a radically different competitive future in the financial services industry, where current profit pools are disrupted and redistributed towards the owners of new, highly efficient blockchain platforms. Not only could there be huge cost savings through its use in back-office operations but also large increases in transparency that could be very positive from an audit and regulatory point of view.

Innovation from start-ups in this space is frenetic, with the pace of change so rapid that by the time print materials go to press they could already be out of date. To put this in perspective, PwC’s Global Blockchain Team has identified more than 700 companies entering this arena. Among them, 150 are worthy of being tracked and 25 will likely emerge as leaders. The use cases are coming thick and fast but usually centre on increasing efficiency by removing the need for reconciliation between parties, speeding up the settlement of trades or completely revamping existing processes.

PwC have responded to the pace of innovation in blockchain by launching a new global technology team in Belfast which has 15 leading technology specialists to exploit and commercialise blockchain.

Figure 7: To what extent are you familiar with blockchain technology?

<table>
<thead>
<tr>
<th>Slightly familiar</th>
<th>Moderately familiar</th>
<th>Very familiar</th>
<th>Extremely familiar</th>
<th>Not at all familiar</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>24</td>
<td>38</td>
<td>43</td>
<td>21</td>
</tr>
<tr>
<td>Ireland</td>
<td>Global</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4% of the 700 companies entering the blockchain arena are expected to become industry leaders.
3. Opportunities and threats from FinTech

**Fintech – a source of opportunity**

FinTech offers a myriad of possibilities for the financial services industry. Partnerships with FinTech companies could increase the efficiency of incumbent businesses. A large majority of respondents rated cost reduction as the main opportunity related to the rise of FinTech. This could include rationalising core processes, services and products, and consequently reducing inefficiencies in their operations. Another example is white labelling robo-advisors to improve customer experience by helping financial advisors and their clients to better navigate the investment world. But FinTech is not just about cutting costs and the majority of respondents believe that FinTech has a role to play in product differentiation, customer retention and bringing in additional revenues, e.g. in the payments industry, additional revenues are already being generated by faster and easier payments and digital wallet transactions.

**Figure 8: In your opinion, what are the opportunities related to the rise of FinTech within your industry?**

- Cost reduction: 67% Ireland, 73% Global
- Differentiation: 52% Ireland, 62% Global
- Improved customer retention: 51% Ireland, 57% Global
- Additional revenues: 61% Ireland, 56% Global

67% of respondents identified cost reductions as a key driver of FinTech in financial services.

**Figure 9: What are the threats related to the rise of FinTech within your industry?**

- Pressure on margins: 69% Ireland, 67% Global
- Loss of market share: 65% Ireland, 59% Global
- Information security/privacy threat: 54% Ireland, 56% Global
- Increase customer churn: 52% Ireland, 53% Global

Pressure on margins is the top FinTech related threat in Ireland and globally. One of the key ways in which FinTech reduces the margin pressure through innovation is improvements in operation costs. For example, the move to cloud-based platforms not only decreases up-front costs but also reduces ongoing infrastructure. Other threats include a loss of margin share, information security and an increase in customer churn.
4. Putting FinTech at the heart of the strategy

FinTech is more than technology. It is a cultural mind-set. Companies hoping to flourish need to shift their thinking to better meeting customer needs, constantly tracking technological developments, aggressively engaging with external partners and integrating digitisation into their corporate DNA. The PwC FinTech analysis tool, Denovo, delivers real-time strategy consulting on developments in the FinTech marketplace and is supported by 40 analysts who perform and publish real-time analysis of FinTech companies to the platform. Companies who use Denovo have access to information that allows them to have a deep and rapid insight into the FinTech developments that are shaping their industry.

More Irish respondents (69%) confirm that they are putting FinTech at the heart of their strategy compared to global respondents (60%). Advances in technology and communications, combined with the acceleration of data growth, empowers at nearly every level of engagement, making FinTech essential at all levels. Nearly one in ten (9%) of Irish respondents said they are not putting FinTech at the heart of their strategy. This highlights a business risk in the long run, as firms that do not recognise the impact of FinTech will face fierce competition from new entrants. As rivals become more innovative, incumbents might run the risk of being surpassed in their core business strengths.

The share of respondents from fund transfer and payments organisations that want to put FinTech at the heart of their strategy exceeds 80%, a high proportion compared to other sectors. At the other extreme are insurance and asset and wealth management companies, where respectively, only 43% and 45% of respondents consider FinTech to be a core element of their strategy.
5. Adopting a ‘mobile-first’ approach

Adopting a ‘mobile-first’ approach is the key to improving customer experience. As the survey highlights, the biggest trends in FinTech will be related to the multiple ways that financial institutions engage with customers.

Nearly half of Irish respondents (47%) offer a mobile application to their clients and this is slightly less than global counterparts (51%). Global banks, with a share of 81% offering mobile applications, are increasingly using these channels to deliver compelling value propositions, generate new revenue streams and collect data from customers.

The survey highlights that significant growth in clients using mobile applications is expected by 2020. Over a quarter of Irish respondents (26%) said that over 60% of their clients currently use a mobile app at least once a month. By 2020, 61% of Irish respondents expect over 60% of their clients will be using a mobile app.

Figure 11: Do you offer your clients a mobile application?

<table>
<thead>
<tr>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Currently developing a mobile app</td>
<td>Currently developing a mobile app</td>
</tr>
<tr>
<td>27%</td>
<td>29%</td>
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<tr>
<td>47%</td>
<td>51%</td>
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<tr>
<td>20%</td>
<td>18%</td>
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<td>6%</td>
<td>2%</td>
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61% of respondents expect over 60% of their clients will access their services via mobile app by 2020.
6. Towards a more collaborative approach

Where financial services organisations adopt digital or mobile strategies, integrating FinTech is essential. According to our survey, over a quarter (27%) of Irish financial services organisations do not deal with FinTech companies (Global: 25%). The most widespread form of collaboration with FinTech companies globally and in Ireland is engaging in joint partnerships. Traditional financial services firms may not be ready to invest fully in FinTech. A joint partnership is an easy and flexible way to get involved with a technology firm and harness its capabilities within a safe test environment. Other popular forms of collaboration include rebranding purchased FinTech services and buying and selling services to FinTech companies. The survey highlights that very few Irish respondents have a FinTech acquisition on the agenda.

Figure 12: How are you currently dealing with FinTech companies?

35% of Irish financial services organisations engage in joint partnerships with FinTech companies
Integrating Fintech comes with challenges

Regulatory uncertainty and IT security are top roadblocks for FinTech companies in dealing with traditional financial services organisations. A common challenge FinTech companies also face is regulatory uncertainty. FinTech represents a challenge to regulators, as there may be a risk of an uneven playing field between the financial services and FinTech companies. In fact over nine out of ten (92%) Irish FS CEOs see over-regulation as a threat to growth. However, the problems are not so much the regulation but rather ambiguity and confusion. For example, which rules do FinTech companies have to abide? Which FinTech companies have to adhere to which regulations?

It is interesting that top challenges globally for traditional companies when dealing with FinTechs are differences in management culture and operational processes. As FinTech companies are mainly smaller, they are more agile and flexible. And, because most are in the early stages of development, their structures and processes are not set in stone, allowing them to adapt more easily and quickly to challenges.

Figure 13: What challenges do you face as a FinTech company in dealing with traditional financial services organisations?

92% of Irish FS CEOs see over-regulation as a threat to growth
7. Emerging FinTech trends on the radar

The survey identifies the changes in the banking, insurance, asset and wealth management, fund transfer and payments sectors and the emerging trends that will be the most significant in the next five years in each area. Overall, the key trends are enhanced customer experience, self-directed services, sophisticated data analytics and cybersecurity. However, the focus will differ for each financial services segment.

7.1 Banks are going for a renewed digital customer experience

Irish banks rate increased sophistication and self-service tools as future trends which will be more important compared to global banks.

Banks are moving towards non-physical or virtual channels by implementing operational solutions and developing new methods to reach, engage and retain customers. As they pursue a renewed digital customer experience, many are engaging in FinTech to provide customer experiences on a par with large tech companies and innovative start-ups.

The trends that financial institutions are prioritising in the banking industry in Ireland and globally are closely linked. Increased sophistication and solutions that banks can easily integrate to improve and simplify operations are rated as most important, with Irish banks rating these areas as more important compared to their global counterparts. However, in terms of likelihood to respond, Irish banks are far more likely to respond to the move towards non-physical or virtual channels than global counterparts. Traditional banks can further look to integrate their multiple digital channels into a one channel customer experience and refine their approach to provide holistic solutions. Newfound digital channels can also be used to collect data from customers to help them better predict their needs, offer compelling value propositions, and generate new revenue streams.

In Ireland, the survey also shows that Irish banks are far more likely to respond to the blockchain opportunity compared to global banks.
7.2 Insurers leverage data and analytics to bring personalised value propositions

Many of the emerging FinTech trends are rated as more important for Irish insurance companies compared to global insurance companies; also Irish insurance companies show a higher likelihood of response to these trends compared to global counterparts.

The insurance sector in Ireland and globally sees the shift to more self-directed services as the top priority in order to efficiently meet existing customer expectations followed by usage-based risk models. Other important trends are new methods for capturing risk-related data, connected health, smart cars and robo-advice. Irish insurance companies are more likely to respond to many of these trends compared to global counterparts with the exception of capturing data. Only 14% of Irish insurance companies say they plan to respond to this trend in the next five years compared to 31% globally. Blockchain and robotics is not on the radar in the Irish insurance sector.

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Increasing self-directed services

The survey shows that self-directed services is the most important trend and the one to which the market is by far most likely to respond. As is the case in other industry segments, insurance companies are investing in the design and implementation of more self-directed services for both customer acquisitions and customer servicing. This allows companies to improve their operational efficiency while enabling online/mobile channels demanded by emerging segments such as millennials. For example, preliminary quotes obtained by sending a quick picture of the driver’s licence and the car registration number.

Usage-based insurance is becoming more relevant

Current trends also show an increasing interest in finding new underwriting approaches. Auto insurance pay-as-you-drive leveraging telematics is now the most popular usage-based insurance (UBI) and the current focus is shifting from underwriting to the customer. Initially, UBI was viewed as an opportunity to underwrite risk in a more granular way by using new driving/behavioural variables, but new players see UBI as an opportunity to meet new customers’ needs (e.g. low mileage or sporadic drivers).

Data capture and analytics as an emerging trend

Data capture and analytics was also ranked as an important trend by survey respondents. Deep risk insights can be generated from new data sources that can be accessed remotely and in real-time. However this ability to capture huge amounts of data must be coupled with the ability to analyse it to generate the required insights. This trend also includes the Internet of Things (IoT). For example, integrated IoT platforms include various types of sensors, such as telematics, wearables and those found in industrial sites, connected homes or any other facilities/equipment.

We believe that, in addition to social changes, the driving force behind innovation in insurance can largely be attributed to technological advances outside the insurance sector that will bring new opportunities to understand and manage risk e.g. telematics, wearables, connected homes, industrial sensors, medical advances, etc.
7.3 Asset and wealth management shifts from technology-enabled human advice to human-supported technology-driven advice

The main trend for the asset and wealth management industry, globally and in Ireland, is focusing on increased sophistication of data analytics to better identify and quantify risk. However, Irish companies are much more likely to respond to this trend by way of investing resources to leverage the benefits compared to global counterparts. Other important emerging trends include the application of technology, enabling digital experiences with human support and the use of innovation.

The proliferation of data, along with new methods to capture it and the declining cost of doing so, is reshaping the investment landscape. New uses of data analytics span the spectrum from institutional trading and risk management to small retail wealth management. Sophisticated analytics also uses advanced trading and risk management approaches such as behavioural and predictive algorithms, enabling the analysis of all transactions in real time. Wealth managers are increasingly using analytics solutions at every stage of the customer relationship to increase client retention and reduce operational costs.
Given that wealth managers have an upcoming multi-trillion-dollar opportunity in the transfer of wealth from Baby Boomers to Millennials, the incorporation of automated advisory capabilities – either in whole or in part - will be a prerequisite. This fundamental change in the financial advisor’s role empowers customers and can directly inform their financial decision-making process.

Automated investment advice (i.e. robo-advisors) poses a significant competitive threat to operators in the execution-only and self-directed investment market as well as to traditional financial advisors. Such robot and automatic advisory capabilities will put pressure on traditional advisory services and fees and will transform the delivery of advice. Many self-directed firms have responded with in-house and proprietary solutions, and advisors are likely to adapt with hybrid high-tech/high-touch models. A secondary by-product of automated customer analysis is the lower cost of customer onboarding, conversion and funding rates. This change in the financial advisory model has created a challenge for wealth managers, who have struggled for years to figure out how to create profitable relationships with clients in possession of fewer total assets. Robo-advisors provide a viable solution for this segment and, if positioned correctly as part of a full service offering, can enhance a full service advice for clients with specific needs.

Figure 16: Trends in the asset and wealth management industry in the next 5 years ranked by importance and likelihood to respond.

How important are these trends for (asset and wealth management) and how likely are you to respond to them? (e.g. allocate resources, invest - % who said ‘very important’ and ‘very likely’)

A. Data analytics
B. Application of technology to enable investments in new markets
C. Automation of asset allocation
D. Digital experiences with human support
E. Use of innovation to get to market faster
F. New products and services for traditionally unprofitable customers
G. Alternative distribution
H. End user-created custom investment solutions
I. Blockchain
J. Innovation in brokerage services
K. Omnichannel interaction and distribution models
L. Community intelligence networks

Ireland ☢ Global ☢
7.4 Fund transfer and payments top priority is faster payments

The top trend for Ireland’s fund transfer and payment companies is a push for faster payments. Globally, the top trend is greater protection of transactions. Other top trends in Ireland include the rise of peer-to-peer payment solutions and digital wallets. Irish companies are also much more focused on responding to these trends than global companies. For example, 71% of Irish fund transfer and payment companies say they will focus on tackling faster payments compared to only 41% globally.

Fast and safe payments are emerging trends

Mobile smartphone adoption is one of the drivers of changing payments patterns. Today’s mobile-first consumers expect immediacy, convenience and security to be integral to payments. In our culture of on-demand streaming of digital products and services, archaic payment solutions that take days rather than seconds for settlement are considered unacceptable. End users expect a consistent omni-channel experience in banking and payments, making digital wallets key to streamlining the user experience. Also, end users expect all of this to be safe. Security and privacy are paramount to galvanising support for all forms of digital transaction and that is why successful adopters of FinTech innovations have a strong focus on cyber security to reduce the risk of losing customer data and to protect their corporate reputation.
8. Surfing the FinTech wave – How to ensure your organisation is ready to take advantage of the FinTech people opportunity

**Encouraging and incubating innovation**

Many financial institutions will need to re-learn how to innovate and attract talent with the right mix of technical and commercial skills. This involves a mind-set change from traditional leadership to a model that encourages innovation at all levels.

**Adopting a FinTech mind-set**

Big corporate structures are not necessarily the best fit for success in the FinTech revolution. Established companies will need to experiment with new business arrangements, such as partnerships and joint ventures, to gain access to the talent and the innovation needed to pinpoint game-changing products. This involves identifying promising profiles and developing incentives to attract entrepreneurial talent.

**Creating an agile enterprise**

FinTech start-ups operate in a very different way than established financial services businesses do. They move quickly, fail fast and are not afraid to take risks. Traditional players need to think about how this agile mind-set dovetails with their current business processes and shareholder requirements. Companies must also be clear about how they incorporate new ways of working specifically with respect to their value proposition, e.g. ‘trying and failing is much better than not trying at all’. In establishing a new paradigm, firms should ask themselves the following: how do you ensure that your culture encourages a progressive mind-set?

**Digitising the employee experience**

Innovative start-ups attract youthful talent with very different career aspirations than those of the previous generation. This will necessitate a change in the way organisations interact with staff, e.g. by redesigning career paths, offering incentive arrangements, or outsourcing work to freelancers. HR departments will need to adapt to new talent acquisition methods, and can learn a great deal from other industries that have gone through similar changes.

**Changing the way talent is developed**

As new technologies enter the workplace, workers’ skills and experience must evolve accordingly. Current employees need to keep abreast of new skills requirements and develop themselves to remain attractive to employers. Because new programming or digitally related skills cannot be taught formally, it is up to employees to build networks locally and embrace the emerging trends and technologies. Talent management frameworks should encourage and reward this attitude.

**Fostering an attractive employer brand**

Many FinTech start-ups have identified a specific niche or a purpose they are trying to achieve. Established players need to take a similar approach to attract the right type of applicants and develop employer brands that appeal to aspiring talent. They must also engage with the start-up environment and strive to develop corporate brands that are tech-friendly. Minimising these challenges should be on the agendas of both FinTechs and traditional financial institutions, as well as governments and regulators in order to create the best investment environment, regulatory framework and infrastructure for the development of FinTech within the financial services industry.
Disruption of the financial services industry is happening and FinTech is the driver. It reshapes the way companies and consumers engage by altering how, when and where financial services are provided. Success is driven by the ability to improve customer experience and meet changing customer needs.

Information on FinTech is somewhat dispersed and obscure, which can make synthesising the data challenging. It is therefore critical to filter the noise around FinTech and focus on the most relevant trends, technologies and start-ups. To help industry players navigate the glut of material, we based our findings on DeNovo insights and the views of survey participants, highlighting key trends that will enhance customer experience, self-directed services, sophisticated data analytics and cyber security.

In response to this rapidly changing environment, incumbent financial institutions have approached FinTech in various ways, such as through joint partnerships or incubation/acceleration programmes. But whatever strategy an organisation pursues, it cannot afford to ignore FinTech.

The local FinTech companies already appear to be starting to find a niche in the global market. The Irish results show material deviation in approach from their global counterparts in that they appear more focused on operational efficiency and less so on the end customer experience, thereby differentiating the Irish FinTech proposition.

The local Irish results of this survey show some interesting trends in comparison to the Global results. Irish companies have a greater understanding of the risk faced by Fintech companies and this awareness may be driven by Dublin’s reputation as a digital hub. Similarly, Irish companies also show a greater desire to respond to this threat and have access to the skills required through the depth of local technology talent. This recognition and the results which indicate Irish companies are putting Fintech at the heart of their business strategies show the local Financial Services industry is ready to take on and lead the FinTech sector.