

Purpose or disruption:

the fintech tightrope
to sustainable growth



Teamspirit



Standing on the outside shouting in



The acceleration of fintech has been astonishing, with the UK sector now worth an estimated £6.6 billion in annual revenue. Celebrated by consumers, government and industry alike, it has brought a wave of dynamism to financial services by renewing the focus on the customer experience.

A raft of early new entrants, such as TransferWise and MarketInvoice launched as challengers and aggressively took on heritage providers to force change. These start-ups defined their brand purpose

as being to disrupt the establishment to improve financial services and, in so doing, become the antidote to market failure. Using technology, they shared an aspiration to remove uncertainty, inefficiency and hassle to create a seamless consumer journey that ultimately made things better for users. To some extent, part of their early success was a result of 'kicking and screaming' about their goal of changing the status quo of a complex, opaque financial system.

To understand how fintechs are navigating the tightrope of market disruption to secure growth, Teamspirit hosted a panel discussion with *The Memo*.

Chaired by Senior Tech Reporter Oliver Smith, speakers included Brad Goodall, co-founder and CDO **10x Banking**, Chris Michael, CTO **Open Banking**, Ishaan Malhi, founder and CEO **Trussle**, Mihai Ivascu, founder and CEO **Moneymailme**, and Samantha Seaton, MD Momentum UK and **Moneyhub**.



The maturing of fintech

If that was fintech's teenage rebellion, 2017 is the year the sector grew up. Rather than being aggressively anti-establishment, fintech has shifted to allow for collaboration with heritage providers and acceleration of growth by accessing far larger markets. This fintech 'adulthood' marks the adaptation of the financial services ecosystem. Fintechs now seek to establish symbiotic relationships with the very same heritage providers they had formerly pointed to and shouted out as the cause of the institutional problem.

The challenge this creates for fintech start-ups is that in creating these new relationships, they potentially risk one of their greatest sources of appeal and growth to early audiences – their purpose of disrupting the establishment. At the same time, heritage providers face significant reputational difficulty in partnering with an organisation that in the recent past was heavily critical, particularly of how they approached consumers.

According to Ishaan Malhi, founder and CEO of start-up Trussle, overcoming this challenge is only successful if the partnership between fintech and established provider is based on alignment of brand purpose. A point in an existing process must be identified where, through collaboration,

value can be delivered back to consumers. With Trussle, an online mortgage provider, this led to its partnership with Zoopla based on their shared purpose of making buying a home easier for consumers. Trussle provided Zoopla customers with an improved mortgage (and remortgage) application process, thereby removing a source of friction and bringing mutual brand benefit.

In our view, rather than it being fintech vs heritage provider, David vs Goliath, the greatest opportunity for both the sector as a whole and end-users (consumers and business) is through collaboration.

For Chris Michael, CTO of Open Banking, fintechs ultimately are a proxy for understanding users, which means that if institutions and providers can engage with them, they have the best chance of finding lasting solutions to the problem of customers' needs. And it is this collaboration that will fuel innovation and growth.

Disrupt or die

The risk for fintechs and heritage providers is that the drive for disruption becomes a force in its own right, without considering if and how it returns the greatest value and benefit to target audiences. This is particularly true for consumers where there a question mark over how much appetite people have for constant product innovation in financial services. In contrast to technology, where the latest gadget has cachet, in financial services few new products are considered in the same way. The risk then is that the perceived initial benefit of adopting the disruptive new financial product diminishes over time which will reduce interest in adoption.

Brad Goodall, CDO of 10x Banking, sees the 'disrupt or die' culture of fintech as a risk to growth, because it distracts brands from addressing the key barriers to engagement with financial services: who to trust with your money and data. In his view, while banks today are clear they need to deliver in a way that customers' experience in other parts of their life, such as on social media platforms or in retail, the current banking infrastructure and approach to data does not allow it. Overcoming this trust challenge requires not just new technology, but a cultural change in the way that financial services apply data and technology insight to improve the customer experience.



The most trusted will win

Improving trust rests on helping consumers understand the financial products they buy and what is the best fit for their individual needs. Sam Seaton, MD of Momentum FT and Moneyhub, believes that while fintech has forced the industry to consider people's need for simplicity, it has not yet addressed the issue of understanding that one size will never fit all when it comes to financial products. This is even more important when set against the context of the introduction of Open Banking with API standards. This will effectively improve transparency and remove some of the greatest barriers to entry.

For Chris Michael, CTO Open Banking, this will 'blow the doors open' to the financial services sector and transform relationships between financial brands and end-users. Hugely trusted, non-financial brands that provide exceptional experience and service are going to be able to develop and provide banking apps, and collaborate to address areas such as compliance or investment. When tomorrow's financial landscape could be dominated by Sky, Google or O2 instead of Barclays, Lloyds or HSBC, brand and levels of trust will become critical.



Brand purpose – the key to unlocking trust



As financial services specialists, at Teamspirit we understand the complexities of the relationship between consumers and financial brands. When the product is intangible and may not be realised for 30 or more years from the point of purchase, the level of trust between the consumer and brand is entirely different from that of a supermarket retailer. However, there are financial brands that bridge this immediacy gap and, particularly in the payments space, have exceptional levels of consumer trust.

To explore what financial services brands can do to unlock growth, we conducted joint research with Chime Insight and Engagement amongst a nationally representative sample of 2,000 consumers. This delved into the way people felt about the financial brands they used and have a relationship with. The headline finding was that the most trusted financial brands with greatest loyalty are those who have a defined 'why' (purpose) which is reinforced through their behaviour.

Simply put, our research proves it is not enough in today's world to be just a financial provider. Consumers want financial brands that put their purpose into action and

demonstrably create experiences which solve problems to make life easier and better. They seek brands that are proactive in meeting their needs and establish a personalised relationship that feels human, even if primarily delivered digitally.

What's interesting is how trust-building brand behaviour to some extent mirrors the disruption that many fintechs shouted about when they entered the market – breaking down the establishment to provide improved and frictionless experience with financial services companies.

In growing up and hunting sustainable, scalable growth, fintech disruption needs to be 'with purpose' to ensure it has enduring appeal and will build brand trust among end-users.

Organisations that put purpose into action are in a better position to:

- **Innovate:** 63.4% of executives believe having a sense of purpose beyond the day-to-day commercial mission made them more innovative
- **Motivate employees:** 71% of executives believed employees were more enthusiastic when there was a defined organisational purpose
- **Inspire ambition:** a purpose focuses people on the 'big picture' for what can be achieved
- **Encourage collaboration:** having a defined purpose with a shared goal can enable cross sector partnerships, even with competitors.

Research from the Economics Intelligence Unit and EY among 1,000 senior decision-makers from three global industries.

Gazing into the fintech crystal ball



With brand trust and purpose pivotal to securing growth, the spotlight is placed on the relationship between financial brands and end-users. Based on our insight and that of our panel of experts, we have distilled the three most significant predictions for how this will change.

1 Defragmentation of banking

No longer will one single bank contain everything they do today. In the future, consumer needs will be met by a series of partnerships between best-in-category providers. Trusted brands will own niche specialisms, whether loans, currency exchange or investment, with this shift being led by more established financial institutions identifying areas in which they did not hold competitive advantage, and partnering with those who do. This will mean the banks of tomorrow will become like insurers are today: the product providers behind genuinely innovative brands. Rather than products being differentiated on price, instead it will be because of the brand, experience and service provided.

2 'Phygital' financial services

A trend seen already in the retail sector, and that will come to financial services, is the blending of physical face-to-face and digital interaction. Sam Seaton MD of Momentum FT and Moneyhub forecasts a redefined bank branch model which will become mortgage, pension or ISA 'shops' that help broaden access to more people especially to those financially and digitally less confident. And by empowering consumers to engage with money as they want to, in-branch conversations could shift to being about realisation of goals, rather than a focus on product applications. This in turn begins to connect money to consumers' aspirations, overcoming apathy to engaging with finances.

3 A global financial DNA system

Away from the consumer experience, the rate of transformation of compliance and data management could bring about the development of a global system in which transactions are monitored and tracked in any country by individual and institution. This far more secure system will empower greater mobility and transparency. For Mihai Ivascu, CEO of Moneymailme, it will remove friction and areas of cost from many financial processes, such as currency exchange, which could be passed on to benefit government, business and consumers.

Who will come out on top?

The disruption brought by fintech has had a transformative effect on the financial services sector as a whole. It has recalibrated the relationship between the financial brand and customer, placing purpose front and centre as a driver of growth. In the future, this will become more important if our three key predictions take place; if providers go through defragmentation, consumers demand 'phygital' interactions and we see the emergence of a global financial DNA system.

Consumer-centric legislation including PSD2 and Open Banking are hastening the pace of fragmentation in the sector by enabling non-financial brands to offer banking services. It's already happening with brands like Facebook having been granted a banking licence, car maker Ford offering banking services, the recently announced Orange Bank to launch as a mobile bank this summer, and Telefonica investing in payment start-ups. These consumer brands with strong existing customer relationships and data are a major threat to established providers and the evolving fintech ecosystem.

As early fintechs mature, including TransferWise which recently became the first profitable fintech unicorn, entrants will face an even tougher battle for 'new' customers. This could lead to an acceleration of consolidation in the sector.

As the battle for customers intensifies, having a clear understanding of purpose is vital. It will determine who to collaborate with, which products to develop, which customers to focus on and, above all, how to improve the brand experience in every interaction.

At Teamspirit, we believe it is those brands, whether fintech start up or established provider, who put their clearly defined, benefited purpose into action who will be best positioned to realise the opportunities ahead.

The financial brands that achieve this have the potential to scale growth and return a net positive result to our society.



