

What financial services leaders need to know about

DISRUPTIVE INNOVATION

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Deloitte* recently joined with the World Economic Forum to examine ways that disruptive innovations were reshaping the business of financial services. As part of that study, we consulted with a broad swath of established institutions, financial services startups, academic scholars, and industry observers. What we discovered led us to the following conclusions.

Almost every service is being disrupted

Innovation is reshaping nearly every aspect of financial services. The technologies that bring us a connected lifestyle are leading to intense personalization in insurance, making the customer's "walk-away cost" higher than ever before. Robo-advisers and social trading platforms are democratizing investment management, eroding the mass affluent market while signaling a return to white glove advisory services.

In banking and securities, alternative providers are poised to take over the customer relationship. Cash and (quite possibly) credit cards are giving way to digital alternatives that will cost financial institutions at least some influence over the transaction experience. Distributed capital raising platforms are opening up the capital markets, forcing traditional intermediaries to develop new value propositions in order to compete.

* As used in this article, "Deloitte" means Deloitte Touche Tohmatsu Limited and its member firms.

You can see the innovators coming

In financial services, innovation is occurring in clusters. But the clusters are forming around potentially profitable customer segments that are well-known to be underserved in some way. In other words, innovators are addressing the same opportunities that incumbent institutions have identified. The next wave of change is deliberate and predictable.

What's more, successful innovators are more alike than not. Many are marketplace platforms rather than new institutions. They don't require a great deal of capital, and they make significant use of data collection, sharing, and analytics. Because of this business model, innovators are at least as likely to be customers or partners of traditional financial institutions as they are competitors of them.

Some are already feeling the impact

Retail banking is the first to have been hit with disruptive innovation. In the payments arena, mobile applications free users from their wallets and the checkout line. Integrated and streamlined technologies make it easier to settle accounts. Geotagging, biometrics, and tokens protect all parties to a transaction from fraud.

Meanwhile, the lending business is becoming increasingly virtual. Thanks to improved technology, direct banks—ones with no brick-and-mortar branches, only ATMs—can compete on more than just price. Other non-traditional players are offering mobile users conveniences such as peer-to-peer money transfer, photo bill payment, and voice recognition.

But insurance is where disruption will be felt hardest. Already cars have operating systems, run user-installed apps, and connect to the Internet. People manage their health through wearable devices that communicate potential issues to healthcare professionals. Devices monitor the home and pick up risk factors requiring preventive action. The old ways of measuring customer risk are quickly becoming irrelevant.

The disruption will last longer than anyone thinks

Disruption isn't a one-time event. It's not bound by the fiscal year. It's the continuous pressure to innovate that will shape customer behaviors, business models, and the long-term structure of the financial services industry.

Any one of the innovation clusters has major implications, not just for incumbents and their customers but for the overall financial services ecosystem as well. Benefits of scale will erode. The universal banking model will become unbundled. New sources of capital will appear.

Together, they form a long-term trend from which incumbent institutions will emerge as aggressive, adaptable innovators, snapping up the best ideas of the start-up ecosystem and bringing them to fruition. The result will be a sea change in the way financial services operate.

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There's much more in the World Economic Forum study about how disruptive innovations are reshaping the way financial services are structured, provisioned, and consumed. You won't learn where to place your bets, necessarily. But you might learn where to start your due diligence. You can download a copy of the full report at www.deloitte.com/future-of-fsi.

