



Digital disruption
Threats and opportunities
for retail financial services

Contents

1	Introduction
2	A short history of modern banking: 40 years of disruption
3	Responding to the challenge through innovation and agility
6	Market enablers and new business models
6	China – the bellwether for digital disruption?
7	Agility: Innovation’s natural partner
8	Regulation and its impact on innovation and agility
9	Conclusion
10	Disruption in non-financial service industries – watch and learn
11	End notes
12	Contacts

Introduction

Over the last 9 months, Deloitte has been focusing on developing a perspective on what will be the elements for success for financial institutions in 2020. We have interviewed, polled and held focused working sessions with over 2,000 executives both from financial institutions and from within Deloitte focused on the impact of the disruptive effects that dramatic technology change, shifts in customer expectations and the regulatory response to the financial crisis have had on our industry.

What is clear from all these interactions is that the industry faces an unprecedented series of threats: new, agile and hitherto largely unregulated players are emerging and are disintermediating the traditional incumbents. Regulation is making it harder to innovate and to grow, whilst legacy strategy, infrastructure and thinking are preventing the existing players from responding aggressively to these threats.

In this paper we explore some of the considerations financial institutions should be taking into account to successfully position and compete with the new breed of hyper competitive players. In doing so, we will cover innovation and its intrinsic correlation with agility as well as explore recent developments in growth markets. We conclude the paper with a few thoughts on the ingredients required for a stable financial environment, focusing more specifically on the role of regulators and the constant struggle to achieve the ideal balance between innovation and regulation.



A short history of modern banking: 40 years of disruption

While retail financial institutions are currently viewed as conservative, risk averse and slow to change, history suggests that retail banks have a long heritage of innovation and adapting to changing environments - usually to facilitate trade and associated cash flow requirements.

Banks flourished over the centuries, with the concept of the branch network emerging in Europe in the 1800's. This movement continued throughout the 20th century, creating the need for consistency and efficiency across branch networks. Record keeping and accounting practices became standardised. Tools such as the typewriter and telegraph helped effective communication between branches and their headquarters. As the network and the customer base grew, so did the need for efficiency. Financial institutions embraced technologies which made them more efficient, more profitable and safer – improvements to the customer proposition were incidental.

From the 1960s onwards, the emergence of consumer rights and rapid technological advancements has created a significant paradigm shift, both in the retail and retail banking industries. For the first time, transformations were primarily driven by customer expectations: the younger the age group, the higher the expectation.

The emergence of mobile phones and the internet in the late 20th century exacerbated this shift: technology was promising to deliver the convenience consumers craved. Unprecedented rates of technological development in both areas gave rise to increasingly high consumer expectations of convenience, accessibility, seamless omnichannel experience and instant gratification – at a lower price.

This new combined technology has led to the emergence of a new breed of hypercompetitive market participants originating from the retail and telecommunication industries, conceived to maximise the leverage of modern technology and concentrate on customer convenience. Successful in their industry in their own right, these organisations (such as Vodafone, Ebay and Alibaba) have turned their attention to financial services and are challenging conventions.

What if payments could be made without using banks as intermediary, and faster? What if money could be borrowed from institutions other than a bank, at a lower rate? What if providers were perceived as directly helping consumers achieve their ultimate goal (after all, no-one wishes to get a mortgage but rather, dreams of buying a house)?

This marked the beginning of another significant shift for retail financial institutions, which is in full motion today. Although retail financial institutions have been a powerful force fueling global economic growth and innovation over centuries, their omnipresence as financial services providers is now at risk.

Never before has the financial services industry been threatened by so many concurrent disruptive forces that have the potential to change it so drastically. M-Pesa, Zap-M, Zopa, Kickstarter, Funding Circle, Lending Club, Square, Peerform, Fundbox, Paypal Alipay, Tenpay and Baidu Wallet are just some of the new market participants edging their way into the payment and microfinance arenas, and competing aggressively on price and customer experience. Aggressive competition will increase, and the rising pressures on traditional financial institutions, exacerbated by ongoing compliance and regulatory requirements, will continue to squeeze margins.

In a different world, one perhaps not dominated and shaped by the internet, constant connectivity, mobility and instant gratification, a "wait and see" strategy or "ride out the storm" mentality may have been sufficient to ensure long term survival. This is no longer an option.

Not only has the game changed, but the size and shape of the field as well as the rules and the equipment are constantly evolving.

Responding to the challenge through innovation and agility

The innovation imperative

Harvard economist Joseph Schumpeter developed a theory of corporate evolution (linked to the concept of “creative destruction”), highlighting the importance of innovation for long term, sustainable organisational success¹. Those who fail to consistently innovate (and to successfully monetise this innovation) lose their relevance over time, ultimately becoming an obsolete provider and vanishing.

Harvard professor and innovation expert Clay Christensen developed the concept further, to differentiate two aspects of innovation: disruptive versus sustaining.

Disruptive innovation describes the process by which a product or service is introduced through basic propositions, targeting a small consumer segment. As it becomes more popular, the product or service gains such momentum that it threatens established competitors. We are seeing an increasing number of disruptive innovations, with products and services being offered by increasingly powerful alternative financial services providers seeking to disintermediate large incumbent’s stronghold on areas such as payment, financing and deposits.

Kenya’s M-Pesa is a prime example of disruptive innovation. This simple and effective mobile payment service was introduced in 2007 by a leading mobile operator, Safaricom. Its strength lies in its simplicity and customer centricity: using affordable basic mobile phones (rather than the more sophisticated and expensive smartphones) and an extensive network of franchised M-Pesa agents - anyone can transfer money nationally to another person, simply by texting. The recipient can cash the credit at one of the thousands of M-Pesa agents, for a small fee. This model has been successfully adopted by consumers (both banked and unbanked) and small traders, in urban and rural areas.

Initially developed as a service targeting the unbanked population in remote rural areas to tackle the increasing incidence of robberies on market days, M-Pesa has become so popular that even local governments use the corporate solution to pay their employees’ wages in rural areas. Remarkably, it is reported that approximately 43 percent of Kenya’s US\$40 billion gross domestic product was processed through M-Pesa in 2013, only 6 years after its launch².

The model is now exported to other countries in Africa, Asia and Europe, with Vodafone planning to launch the service in Romania. A more modest example in terms of scale is that of Magazine Luiza, a family-run Brazilian retail chain for household and electrical goods. As part of its e-commerce strategy, Magazine Luiza offered credit to low-income customers who would not normally qualify, using more traditional means of assessing credit-worthiness and local knowledge.

The payments sector continues to lead the way in terms of attracting new competition from alternative financial services providers. In large part this is because it has historically been an area of high costs and user experiences characterised by complex and inefficient processes. Paypal was one of the original pioneers in this area and now are believed to have in the order of 140 million accounts³. Founded in 1998, Paypal is now considered an established institution and is facing significant competition from new entrants who believe they can offer superior service at lower price points. Given the size and characteristics of the sector, it is little wonder that innovation in payments continues to attract so much attention. The World Bank estimates that the remittance market is worth around US\$500 billion alone, and if we extend the analysis to include all global movements of money (between developed nations and developed and developing individuals and businesses) is estimated to be valued at US\$5 trillion⁴. The honeypot effect of these numbers is self-evident with the rapid advanced of technology powerhouses such as Alibaba, Tencent, Baidu, and pending confirmation of Facebook into this crowded arena.

With 1.2 billion users, recent history has shown that when Facebook decides to enter any market, everyone is forced to sit up and take notice. Further adding to the tidal wave of potential, the recent US\$19 billion Whatsapp acquisition has added a further 450 million addressable users. Although the potential market redefining power of such a force is undeniable, Facebook has not put its best foot forward in many cases where it attempted to change its service or bend the will of its savvy user base. Thus far a “sleeping giant” from a financial services perspective, recent events indicate that the slumber may be about to come to an abrupt end. In a strategic shift signaling the desire of the company to diversify their advertising dominated revenue base, Facebook is understood to be shopping around for a peer-to-peer payment service provider to build its financial services capability for expansion into Europe and emerging markets⁵. In April 2014, the Financial Times reported that Facebook is “only weeks away from obtaining regulatory approval in Ireland for a service that would allow its users to store money on Facebook and use it to pay and exchange money with others”⁵. This move would bring Facebook into parity with the likes of Google and Vodafone who have already obtained the status of “e-money” institutions. This new payments ambition has a clear and logical linkage to Facebook’s internet.org initiative to “bring the next 5 billion people online”⁶. In the developing world, the capability to perform basic remittances could reasonably be considered a gateway that has the potential to lead to financial inclusion⁵. In this regard, there is little doubt that Facebook would be taking a keen interest in the viral growth of companies like M-Pesa, leading one to the obvious conclusion that they too could have such a large presence and impact in growth markets.

What will this move mean for traditional providers of remittance services? To a large extent, the market impact will be heavily dependent on Facebook’s ability to earn the one thing that no amount of money can buy...trust. It is often said

that if you are not paying for the product, then you are the product. Facebook’s business model is built on their ability to mine your information and sell ads against it. There will always be a trust barrier to overcome for advertising supported services. Trusting Facebook with your friend list and photos is one thing, trusting them with the fulfillment and custodianship of your financial interests is something that may take some time to develop⁷.

On a smaller scale we have also seen a number of innovative market entrants achieving impressive growth and traction. For example, Transferwise, a UK based company has recently announced that it has processed £1 billion of customers’ money since May 2013⁴ — an eight-fold increase from £125 million to £1 billion (US\$210 million to US\$1.6 billion). Although not specifically addressed in this paper, we also have to keep in mind the disintermedian potential of crypto currencies such as Bitcoin.

Other examples of disruptive innovators with vast ambition (and quite often, significant private sector backing and resources from venture capitalists and angel investors) are not hard to come by. Micro-Financing and crowdfunding platforms are also exhibiting strong growth potential. The success of funding platforms such as Kickstarter and Indigogo have driven the sums raised through this channel from US\$1.5 billion in 2011 to US\$5.1 billion in 2013⁸.

In the lending space, Amazon and PayPal are now in direct competition with banks targeting the small & medium enterprises (SME) sector. These two established e-commerce superpowers are seeking to leverage their significant platform and connectivity potential to disintermediate the banking sector. Amazon made the push into this area with its “Amazon Lending” platform in 2012^{9,10}. PayPal, a pioneer in online payments, expanded their service proposition to include the PayPal “Working Capital” loans service for SMEs in September 2013¹¹.

Sustaining innovation is very much as it sounds - an evolutionary process that does not displace incumbents but rather is typically a catalyst for increasing competition with existing market players. Typically, this would lead to a “me too” investment, resulting in limited differentiation between competitors as well as a longer term margin squeeze. Traditional retail banks have historically adopted a sustaining innovation strategy.

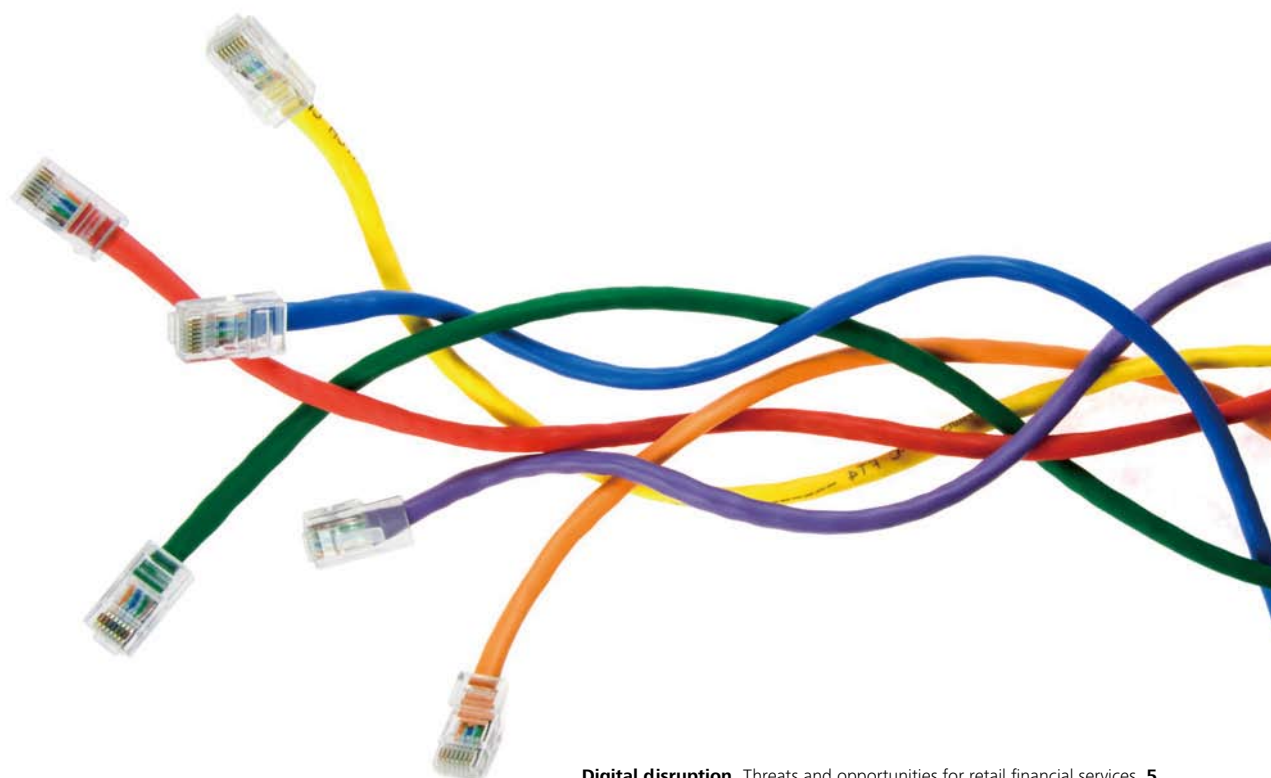
The key for established organisations to survive in the current environment is in their ability to continue to pursue a strategy of sustaining innovation, while remaining informed of and agile enough to react swiftly and positively to market challenges and disruption. Failure to achieve this optimal state will lead to marginalisation.

Doblin, Deloitte’s Innovation Unit, has conducted an in depth assessment of the critical success factors for innovation programmes and found that success lies in the ability to effectively target multiple concurrent dimensions. When assessing innovation strategies, decision makers should consider the entire landscape of possibilities. The Doblin innovation landscape has identified ten key areas to ensure all options are adequately investigated. (see Table 1)

Looking at innovation from this perspective, we can foresee a new light in which larger retail banks may indeed be able to avoid inertia and reap some benefits of their size and scale advantages in differentiating their customer experience.

Table 1: Doblin innovation landscape ¹²

Elements of the Doblin Innovation Landscape	
Business Models	How your organisation makes money
Networks/Alliances	How you can join forces with others for mutual benefit
Enabling Processes	How core competencies and workers are supported
Core Processes	How to create and add value to offerings
Product Performance	How core offerings are designed
Product Systems	How your organisation links or provides a platform for multiple products
Services	How you provide value to customers beyond and around products
Channels	How you get offerings to market
Brands	How you communicate offerings
Customer Experience	How customers feel when they interact with your company and its offerings



Market enablers and new business models

Advances in technology and connectivity are at the root of much of the upheaval in capabilities and potential. The end result of this is that scale alone is no longer sufficient to ensure survival. With breakthrough technologies and advantageous market timing the old rules no longer apply in the same strict sense. The internet and the associated business, software, and infrastructure platforms have empowered small players to scale with ruthless efficiency, so much so that some have argued that to succeed going forward, a new mindset and ability to embrace (or at minimum understand and appreciate the power and danger of) economies of “unscale”¹³ will be required to ensure success.

The notion and benefits of “unscale” are a significant departure from the rule that bigger is always better. Technology breakthroughs allow smaller players to expertly exploit the power of less costly modular platforms and services to quickly reach, understand and build relationships with consumers in ways that larger competitors could only dream of a short time ago. Worryingly for financial services incumbents, scaling up, and the associated cost and barriers to entry that have protected the status quo for so long are vanishing at an alarming rate. In the future, success will often depend on the ability to think creatively about the business model and value chain. Success will also depend on an organisation’s ability to leverage the power of networks and to create lock-in through vertical integration and strategic partnerships.

We expect that for “digital natives” (i.e. consumers born in the digital era, post 80’s), traditional financial service providers may no longer be front of mind when finding solutions to their financial needs. To succeed in this new world financial institutions will have to differentiate products and services through a significant investment in data and analytics capabilities. This will position them to dramatically increase customer understanding and insights that will enable them to build and deliver a tailored experience in each and every customer interaction. The big advantage that incumbent financial institutions have in this regard is the vast amount of data that is currently being collected and stored. How this data is used to provide real value and predictive insights is a key factor to staying ahead of the competition.

China – the bellwether for digital disruption?

In China we need to look no further than the voracious appetite and competitive rivalry of the “BAT” internet giants – Baidu, Alibaba and Tencent. These heavyweights are shadowing each other and fighting blow for blow in an attempt to establish a comprehensive platform proposition that can win the hearts, minds and wallet of the fastest growing market in the world. In payments, Alibaba took the initiative in the market with Alipay in January 2013, closely followed by Tencent with “Tenpay” in August. Search giant Baidu has now joined the payments party, launching its “Baidu Wallet” proposition in April 2014. Alibaba’s Alipay service also incorporates a successful deposit and savings initiative, the Yu’e Bao fund platform. Launched in June 2013, Yu’e Bao is already the mainland’s largest money market fund and has (as at March 2014) accumulated RMB 500 billion (US\$81 billion) and attracted more investors than the entire China A share market (81 million vs 67 million)¹⁴. With Baidu wallet also expected to offer wealth management features the pressure is well and truly heating up for traditional providers of these core banking and financial services.

In March 2014, Alibaba and Tencent also attempted to launch competing virtual credit cards within days of each other. This first attempt has seen significant challenge from the People’s Bank of China while it evaluates the potential systemic risks associated by allowing this further encroachment by e-commerce players into the financial services realm¹⁵.

2014 may well turn out to be a milestone year in this space, as China is expected to surpass the US as the world’s largest digital retail market. Combined with smartphone penetration of 80 percent in 2013, which is expected to push towards saturation of 90-95 percent by the end of 2014, the sheer magnitude of this influence on all industries cannot be understated¹⁶. According to Gartner, China will account for 31.5 percent (395 million) of global smartphones sales in 2014.

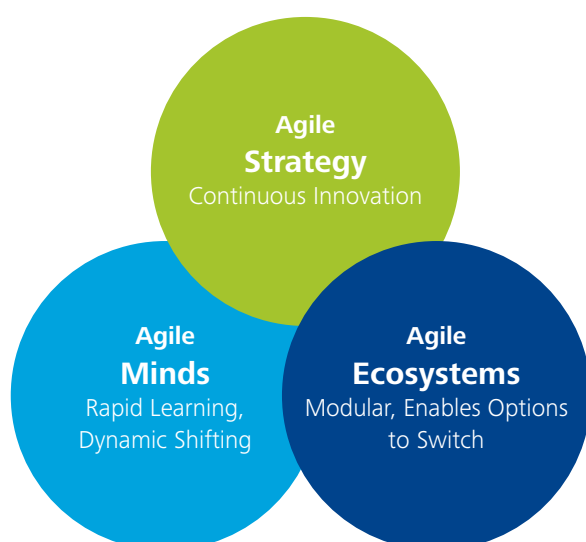
As we introduced earlier, e-commerce giant Alibaba is methodically and aggressively progressing its ambition to reshape financial services. There can be little doubt that its ambitions will continue to push boundaries and disrupt the activities of many market participants. Alibaba has already made the push into financial infrastructure, taking controlling stakes in companies such as in the financial software firm

Hundsun Technologies Inc. and Tianhong Asset Management Co (which runs one of China’s largest money market funds). Tencent has also demonstrated clear intent with their announcement of plans to invest RMB10 billion in the Qianhai economic zone, a region established as a potential testing bed for liberalising financial policies¹⁷. The first seed of this ambition has already come to fruition with the announcement in April 2014 that Tencent has been granted one of 5 licenses to set up a new private bank in Qianhai. Tencent have indicated they intend to partner with Shenzhen Baiyeyuan Investment Co on this venture. When announcing the move the company stressed that “it would be able to leverage its advantage in the Internet industry to focus on online finance innovation to better serve its users more efficiently”¹⁸. With a vast user base to tap and immense platform advantages, it is hard to argue with this confidence. Traditional financial services providers should be left in no doubt as to the danger that these aggressive moves by e-commerce power houses pose for the future of competition in their sector. While the rapid advancements in China may be a leading indicator, no market should be lulled into a state of complacency, regardless of their place in the world right now.

Agility: Innovation’s natural partner

We have explored how organisations can respond to current market challenges and competition through innovation. Another key consideration is agility, i.e. an organisation’s ability to intelligently identify threats and opportunities and to react appropriately at pace¹⁹.

Figure 1: Fundamental elements of Agile firms



A balanced and agile organisation must consider the delicate interplay between three key elements: strategy, ecosystems and minds.

1. Agile Strategy – an organisation’s ability to incorporate the forces of disruptive innovation and sustaining innovation in its strategy. The ability to continually adapt to a changing environment and accept “self-disruption” as a necessary short term pain to ensure long term survival. Agility will allow banks to make quicker decisions, scale up and down more efficiently, and become better innovators on a repeatable basis.
2. Agile Minds – curiosity, flexibility and rapid learning are pre-requisites to the ability to adapt and embrace change at a rapid pace. Rapid learning is the ability to evaluate progress and success based on tangible measurement criteria – if these are not positive or conclusive, the Agile Mind will move on and dynamically shift focus. Learn fast, move fast. Reward and incentive systems must be closely linked to your human capital strategy, culture and ideals.
3. Agile Ecosystems – leveraging resources either internally or externally to create a product or service which is flexible and allows major or minor refinements to be executed rapidly. Willingness and understanding to ruthlessly use and promote the best tool for any job. Partnering with potential non-standard external partners to push through innovation processes. Agile ecosystems required a very strong, but flexible operating model.

Traditional financial services providers have struggled to be agile. Typical challenges include:

- Innovation being the focus and responsibility of an innovation team separate from the rest of the organisation
- Slow, decision making process reflecting the complexity of the organisational structure
- Business case assessment process focusing only on traditional criteria such as Net Present Value (NPV) and Internal Rate of Return (IRR), therefore unable to objectively assess the benefit of disruptive innovation accurately
- Low risk appetite and the associated mindset that anything new is risky
- Failure to re-assess the competitive landscape, thus failing to explore progress made by alternative financial services providers.

The most fundamental challenge faced by these organisations is the curse of the innovator's dilemma - the unwillingness to change their strategy and disrupt themselves, especially in times when the balance sheet is healthy. Overcoming inertia and shifting strategy early enough (i.e. when things are still going well) is a skill that very few businesses will ever master, even when the writing is very clearly on the wall.

Regulation and its impact on innovation and agility

The Organisation for Economic Co-operation and Development (OECD) Directorate for Science, Technology and Industry (DSTI) ²⁰ has examined the impact of regulation across a wide range of industries in an effort to understand the challenges and opportunities. Overall, they find that "regulation directly affects the innovation process, while innovation and technical change have significant impacts on regulation. To be successful, regulatory reform efforts must take into account the linkages between regulation and innovation" ²⁰. Technology, as a theme, remains persistent in the OECD studies as an enabler of innovation and catalyst for disruption

of underlying cost and competitive structures in many industries. However, in a dynamic environment, risks cannot be eliminated entirely, thus the OECD has proposed some general guidelines on how to maximise positive effects of innovation, whilst minimising the chance of incremental systemic risk which can lead to adverse shocks and instability:

- **Understand regulation/technology linkages:** The regulatory process – whether in the economic, social or administrative spheres – must be ever vigilant to the effects of technical change.
- **Introduce competition:** In all economic sectors, a certain degree of competition among firms is essential to the innovative process.
- **Streamline regulations:** In the interest of economic efficiency and innovation, regulatory reform should seek to remove duplicative, onerous and inefficient regulations, particularly to aid small and medium-sized enterprises.
- **Use technology-driving approaches:** Maximum use should be made of regulatory approaches or alternatives which are technology-friendly, such as economic instruments, voluntary agreements and performance rather than design standards.
- **Harmonise internationally:** Countries should pursue greater compatibility among their regulations to remove uncertainties, inefficiencies and market barriers which can slow innovation.

Source: ²⁰

As players with significant vested interest in the outcome of regulatory reform and the associated implications for innovation and competitive capability, it is critical that the financial services industry is intimately familiar with the interdependencies, drivers and outcomes various approaches and where possible, is an active participant in creating an equitable and sustainable regulatory framework.

Over the past five years, the financial services industry has been faced with intense and increasing regulatory scrutiny, the compliance to which has necessitated significant investments, potentially at the expense of innovation and growth goals. At times, it has been difficult to see past the omnipresent influence of risk and compliance measures around capital, liquidity, consumer protection, anti-money laundering and overarching risk management focus. New regulatory requirements have attempted to level the playing field for the largest of traditional players; however, the significant overhead and operational implications associated with implementing and enforcing the measures has not flowed equally downstream to smaller financial services players¹⁹.

While the end result of the increased regulatory requirements and oversight will hopefully fulfil the original objective of creating the necessary controls, transparency and stability in global financial systems, they can also have some unintended negative implications, in terms of competition, operational flexibility and consumer protection. The question being asked by the most forward thinking and astute companies is not how to stem the tide and return to the status quo, but rather how to adapt business models and organisational dynamics to a world where agility is equally as important as scale advantages.

What the financial services industry is witnessing is the natural contradiction and struggle between the seemingly diametrically opposed forces of regulation and innovation. This is occurring on both global and national levels, fueled in large part by rapid technological advancement that ultimately results in classical Schumpeterian creative destruction²¹. Regulators are faced with the unenviable task of attempting to achieve a level of generally accepted equilibrium between the benefits and risks of regulation and unfettered free-market innovation.

Given the track record of the financial services industry in recent times, it is little wonder that the regulators have tended toward a state of conservatism and vigilance at the expense of some of the creativity and freedom of years gone by. The challenge is finding that sweet spot between financial regulation and financial innovation, between market efficiency versus market stability, between principles-based regulation and rules-based regulation²¹. Only if it were possible to eliminate, or at least hold constant for a period of time the constant barrage of externalities that are dynamically shaping the competitive landscape could we reasonably and realistically expect the stewards charged with finding the elusive "right" balance to have any chance of satisfying a majority of stakeholders.

Conclusion

We expect the future to be one of varied and increasingly ambitious disruption in financial services, driven by continuous technological innovation. This innovation will drive valuable customer insights enabling the development of new products and services, transform systems and processes to dramatically reduce cost and enable organisations that are ready for it to be increasingly agile and able to respond to competitive threats.

Markets and consumers will greatly benefit from the dynamic financial environment. For this to be the case in the long term and to maintain a stable financial system, regulators and lawmakers have an important contribution to make in ensuring consumer protection is extended to all aspects of financial services, regardless of the provider and to creating an environment where the right sort of innovation can flourish.

Disruption in non-financial service industries – watch and learn

It should be remembered that the financial services industry is not unique in its struggle to find the optimal balance necessary to promote innovation while at the same time maintaining the necessary checks and balances required for long term stability and free market incentives among competing stakeholders. Battles are currently raging on multiple fronts across a myriad of industries. High profile examples can be found in other service industries such as hotels (Airbnb), taxis (Uber). Airbnb, barely 6 years old, has spread to 32,000 cities and is estimated to be worth US\$10 billion²², bypassing both the middle-man and, regulatory requirements, and in some cases the tax-man in the process. Uber's mission is to "evolve the way the world moves by seamlessly connecting riders to drivers"²³. The most recent funding round values the 5 year old startup at US\$3.5 billion with that last year alone delivering a 700 percent increase in revenue²⁴. With the backing of some of the world's most prominent venture capitalists combined with ambitious short term goals to continue global expansion and to shake up the transportation industry, this is a classic example of technology diffusion enabling creative destruction.

In April 2014, Uber also announced plans to leverage the power of its brand, platform and ecosystem to expand its reach into the courier delivery business with the "UberRUSH" pilot programme in New York²⁵. However, as in the world of financial services, Uber is facing increasing regulatory scrutiny and challenge. The extent to which this challenge drives further innovation continues to play out. Another example is the innovative online retailer Zappos.com. Started in 2009, its mission from inception has been 'to provide the best customer service possible – The WOW philosophy'²⁶. Despite Zappos being an online business, the entire culture of Zappos is centered around providing unconventional and unique experiences that go above and beyond what is expected with the goal being to create an emotional impact on the receiver²⁷. Unsurprisingly, their second core value is to embrace and drive change.

Bringing the discussion back to financial services, there are some common themes and operational core competencies underpinning many of the successes of these non-financial service success stories. There are many lessons that can be learned from observing their ability to continually innovate, disrupt and grow despite increasing competition and fast approaching regulatory pressure. The importance and power of platforms is one theme we are continually seeing as a critical success factor in today's markets. Platform scale and size advantages alone however will not predetermine success. Building the necessary flexibility and capability to understand and leverage the platform is necessary. This flexibility and agility is necessary at all levels of the organisation – both technically and operationally. The heart of their success though, is really about providing a tailored end-to-end differentiated customer experience that seamlessly integrates with their daily life and routines. Once you have experienced the convenience, simplicity, and rewarding interactions that are possible when a company truly seems to be able to understand and predict your needs, it is extremely frustrating and jarring when you are confronted with lesser standards in other parts of your life.

The Uber vs traditional taxi experience is a classic example. Push a button on your phone, you are notified immediately and continuously of the expected time of arrival, driver location and driver name. There is no messy hard currency changing hands and both parties have a vested interest in a successful transaction via the 2-way social rating system (driver rates passenger, passenger rates driver). Uber is also taking their technology advantage to extreme levels with predictive models to ensure their drivers are located in high demand areas at peak times. In addition they are also innovating around their business models via utilising supply demand metrics to dynamically implement "surge pricing". The "Uber" experience could not be further removed from a traditional on-demand transportation experience. Who is going to be bold enough to dare to create the "Uber" experience for financial services? Will regulatory challenge limit the potential success?

Technology is a key enabler of these WOW experiences, but the ability to offer them is by no means the exclusive domain of Silicon Valley startups. While the playing field may not be equal now or in the near term, the financial services industry cannot afford to sit idle in the hope of more favorable innovation or regulatory climate. The banking sector still has some inherent advantages from which it can use as a springboard. For one, most are sitting on a potential gold mine of customer information that can be mined to create detailed insights and predictive models that can be fed into the product development cycle and enhancing the customer journey. Combining this with strong balance sheets, vast distribution networks, and the necessary agile corporate ecosystem, even the most "hip" valley startup would be envious from an execution capability and potential impact perspective.

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