

# Overview of Fintech

## Banks Must Prepare for a Customer-Driven Future

As part of the Directors Development Program, Egon Zehnder hosted a discussion titled “Overview of Fintech,” featuring Hemant Jhajhria, Managing Director and Partner at Boston Consulting Group. Jhajhria gave his thoughts on the latest happenings in the world of fintech and what they mean for board directors.

### **Fintechs are disrupting traditional banking**

Fintech, short for “financial technology,” describes a wave of companies seeking to reinvent the traditional financial services industry through disruptive technology and software. And they are promising a “revolution,” according to Jhajhria.

“When fintechs look at banks, they find all these opportunities where banks don’t give the similar experience or they are missing out on some process, speed, simplicity, or convenience that fintechs build around,” he said. This puts traditional banks at risk, especially as regulations around these new technologies loosen.

Jhajhria said that fintechs have garnered the most value in the areas of payments and lending, followed by investments. Globally, banks make the most money from

lending, so that is where fintechs have focused their efforts. In the investment field, fintechs have stepped into areas such as wealth management, which is especially important for the younger, more tech-focused audience they are courting. This can pose a problem for traditional banks, especially public ones.

“Because if you’re going after a millennial who doesn’t have money today, he will have money tomorrow,” said Jhajhria. “And it’s a continuous relationship, and one thing that public sector banks probably most worry about is: Our customers are growing old, how do we attract newer and younger customers? Because customers will grow older and older, and your profile gets that much more tough to attract a newer set of customers.”

### **Banks are falling behind on customer experience**

A focus on customer experience is giving fintechs a leg-up in many regards. Jhajhria mentioned the bank-specific apps he uses, and how “none of them come even close to Google’s Gpay, in the experience. “It is never down, it is so intuitive, I didn’t have to learn a thing...But for banking apps, I have to learn how to do simple transactions”

Traditional banks have lost that customer experience advantage in an era of innovation and technology. Their apps can’t compete with other companies’ apps that are explicitly designed around software development—and those apps’ poor adoption rate is evidence.

“Older customers may value the in-branch experience of traditional banks”, Jhajhria allowed. But that experience matters less and less to younger customers. “I probably go to a branch once in five years, and my son would never even see the branch,” he said. “So that move will happen, and there is a real risk that the younger customers are not getting excited with what banks have to say.”

### **The balance of power in data is shifting toward fintechs**

Traditional banks aren’t just losing to fintechs on this “lucrative, fee-based front-end business,” according to Jhajhria. They are also falling behind on what was once one of their primary strengths: customer data.

Historically, banks have had a rich, exhaustive well of customer data. “You can find out if this customer is going to default on his lending account 12 months from now—the data is that good,” said Jhahhria. “But what have banks done with that information?”

Not enough, according to Jhahhria. Banks may have the deep sets of data, but fintech companies are poised to use the data they have more creatively. “The richest data is with the banks, but why is a bank’s valuation is probably like 150th that of Google?” he asked. “Because there is no trust in the market that the banks will use the data very effectively.”

Now, the data that banks were once protective of is available to more and more companies, as customers become more accustomed to sharing it.

### **A wake-up call for banking**

There are countless stories of traditional industries being disrupted and made obsolete by technology. Fintech is poised to do the same to banking, if old lines of thought are not challenged.

### **| “It will be a customer driven future”**

“The first thing banks will ask about is how this needs to get profitable in six months,” said Jhahhria regarding banks’ reluctance to adopt new technologies or methods. “But there is rarely a question asked about, OK, first design my customer experience, first make sure my customer is happy. And then profitability is also important.”

Jhahhria called what awaits this industry a “customer-driven future.”

“Why is this a customer-driven future?” he asked. “Because customers today, when they start their morning, let’s say they book an Uber, and they go to a bank, they go to a party, whatever they do—they don’t see a difference between financial services and non-financial services. They see that they need X number of things. Can they work seamlessly together?”

Jhahhria gave the example of Rocket Mortgage, which stepped into the previously uncharted waters of online mortgages years ago. “I used to manage for a global

bank, and we used to laugh at Rocket Mortgage,” he said. But the company built an intuitive, seamless app experience that revolutionized the mortgage industry and the analytics behind it. “No one has simplified mortgage like Rocket Mortgage has done.”

So how should banks respond? Jhajhria said one option is to collaborate with fintechs. “Fintechs really want to collaborate with banks,” he said. “They believe that they can help banks with sourcing, distribution, underwriting credit, even collection.”

Or banks could undergo their own digital transformation, inventing and building digital-first products rather than trying to force their traditional services and processes into a digital environment. “You’re not going to take your traditional products and throw them online,” Jhajhria said. “Because that doesn’t work. The experience needs to be redesigned and it needs to be quite seamless.” Such an approach will also require banks to confront and solve their own legacy tech challenges across their operations.

As a wave of tech-centric disruption threatens to overtake another industry, Jhajhria cautioned the members of traditional banks in the audience to not disregard these new startups, and instead find their own path toward innovation and reinventing their businesses.

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