



FinTech Disruption

in Financial Services

A Consumer Perspective

CGI

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Executive summary

For nearly a decade, banks have faced an unprecedented array of challenges, with shrinking revenues and intense pressure from customers and regulators. Compounding this tough environment is a powerful new force that has emerged to challenge banks—financial technology (FinTech) firms. These innovative startups are striving to take a share of financial services customers, products and revenues.

Bank executives are paying attention. Based on the 2016 CGI Global 1000 outlook, which involves in-person conversations with business and technology leaders in 10 industries and 20 countries, 65% of retail bank executives identify increasing competition and innovation as a top industry force. They place this second only to rising customer expectations for fast, personalized digital services.

As a leading provider of services and solutions to the financial services industry, CGI annually surveys bank consumers across the globe to inform our strategy and our clients' strategies. Our 2015 study, "Financial Consumer Demands for Tomorrow's Digital Bank," investigated what consumers value from their main financial service provider and how well banks are meeting consumers' needs. The study revealed a demand for value-added services that supplement traditional banking products, while also solidifying the importance of seamless, anytime/anywhere, omni-channel service channels.

With FinTech disruption high on banks' agendas, CGI set out to inject the voice of bank consumers into the disruption equation. For our 2016 study, "FinTech Disruption in Financial Services," we delve into consumer perspectives on value-added digital financial services. We examine how much value consumers place on a wide range of services, along with their market awareness, impediments to purchase, and—most crucially—provider preferences for these value-added digital services.

What you will learn:

- Understand how FinTechs are affecting the financial services industry
- Hear what consumers have to say about FinTech concepts: what they value, current awareness and consideration of value-added digital banking services and provider preferences for these services

Key findings:

- Consumers place the highest value on protection and personal financial management (PFM), well above widely publicized FinTech concepts such as peer-to-peer (P2P) lending and robo-advice
- A strong majority of consumers prefer to get value-added services from their current primary banking provider—mainly for reasons of trust, value and convenience
- Successful banks and FinTechs will move beyond a "zero sum" mindset where one party wins at the other's expense and recognize that partnering is the wise path forward



Consumers across the globe were surveyed about 12 FinTech concepts.

CGI surveyed 1,670 consumers across the U.S., Canada, the UK, France, Germany, Sweden, Singapore and Australia. We honed in on 12 different FinTech concepts—a mix of ones that exist in most markets and some relatively new concepts—and we examined the following:

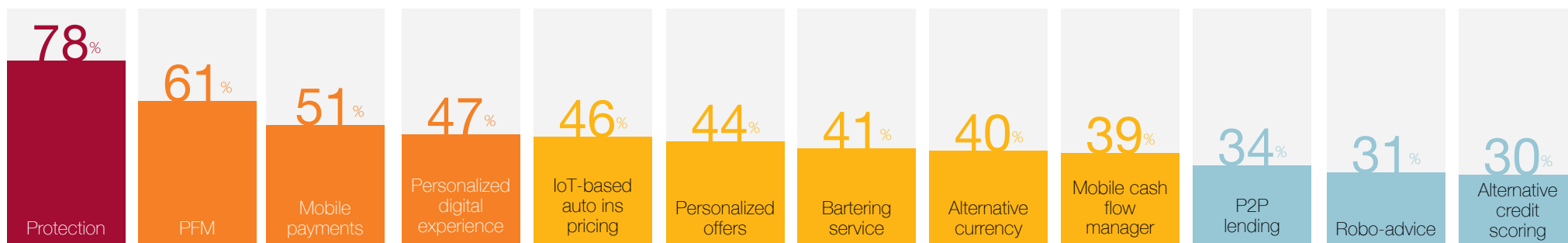
- How much value consumers place on each of these financial services
- Their level of awareness, current and expected future use, and obstacles to purchase
- Provider preferences and influencers



Protection	Security service that protects me and my money from threats such as identity theft, data theft and fraud
Personal Financial Management (PFM)	Ability to see my entire financial life online in one place, pulling information from all of my financial providers
Mobile Payments	Ability to use my mobile device to pay for purchases at a retail store, restaurant, etc. and/or to immediately transfer money to another individual
Personalized Digital Experience	Personalized online and/or mobile experience tailored to my products, behaviors and preferences (e.g., screen layout, default options, etc.)
IoT-based Auto Insurance Pricing	Auto insurance where the pricing is partly based on my driving behavior as monitored through a device in my vehicle or via a mobile app
Personalized Offers	Personalized promotions and discounted deals for non-financial products/services from my financial provider based on my financial relationship, plus where I shop, what I buy and where I go
Bartering Service	An online service where I can barter/trade with others, exchanging goods/services without using money
Alternative Currency	An alternative currency that is digital and secure and that can be used for real-time transactions across many types of payments and across borders
Mobile Cash Flow Manager	On-demand payment service accessible on my mobile device that uses funds in my account when available and also seamlessly and immediately borrows when necessary to pay for purchases that exceed my available funds
Peer-to-Peer (P2P) Lending	Personal or business borrowing from individuals or a group of investors rather than a bank, facilitated by an online service that matches borrowers with lenders
Robo-Advice	Investment recommendations based on computer models instead of from a human advisor
Alternative Credit Scoring	Personal or business borrowing where the lending decision and pricing are partly based on alternative credit scoring mechanisms such as your social media profiles and activity

Which concepts do consumers value the most?

Percentage of consumers who highly value each concept



Protection is by far the most valued across demographics and geography

Personal financial management (PFM), mobile payments and personalization found greatest interest among the affluent, 40 and under, and those in APAC countries

A good percentage of consumers see value in some concepts that are still developing, which shows an openness to further innovation

Roughly 1/3 of consumers see value in these well publicized FinTech concepts, which are more popular with consumers 40 and under and within APAC countries

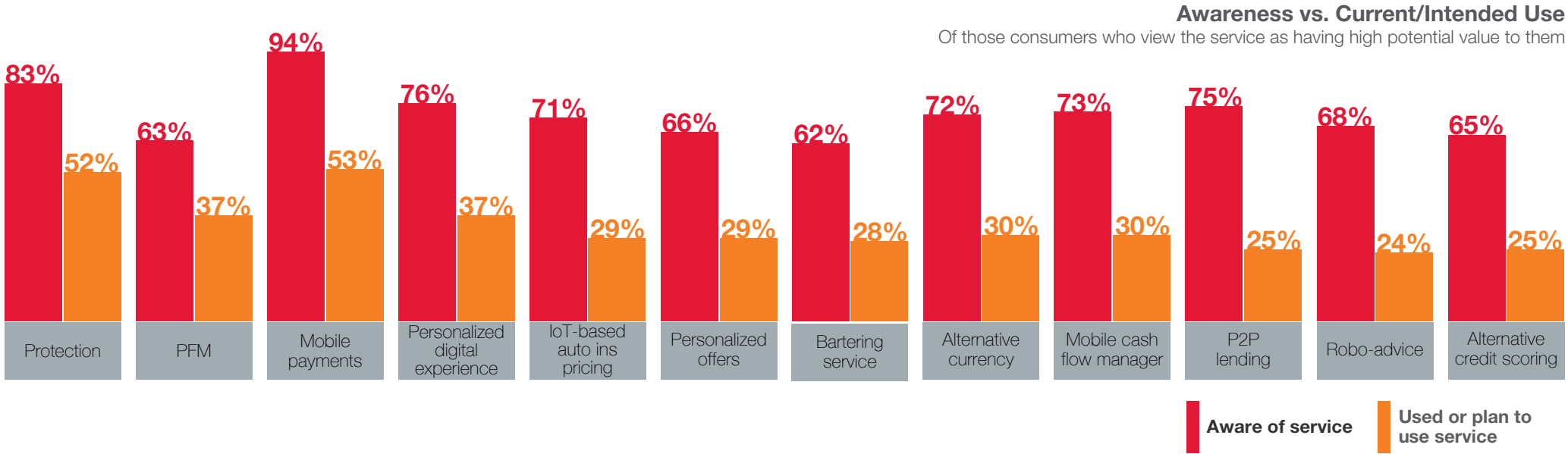
The most valued FinTech concept is protection, reflecting the high level of consumer **fear of cyber attacks and the potential identity, data and money theft (fraud)** that follow.

Protection is the most valued across all demographic groups (age, gender, affluence) and countries, with the U.S. (88%), Australia (87%), the UK (83%) and Canada (82%) more interested than Europe (67%-73%) and Singapore (74%).

The next most valuable concepts are personal financial management (PFM), mobile payments and personalization. This demonstrates consumers' increasing **desire for convenience and digitization of the banking experience**.

On the other end of the spectrum, the FinTech services dominating the press—namely P2P lending, robo-advice and alternative credit scoring—are found to be the least valued by surveyed consumers.

Interested consumers are aware of these services, but many do not intend to buy them.



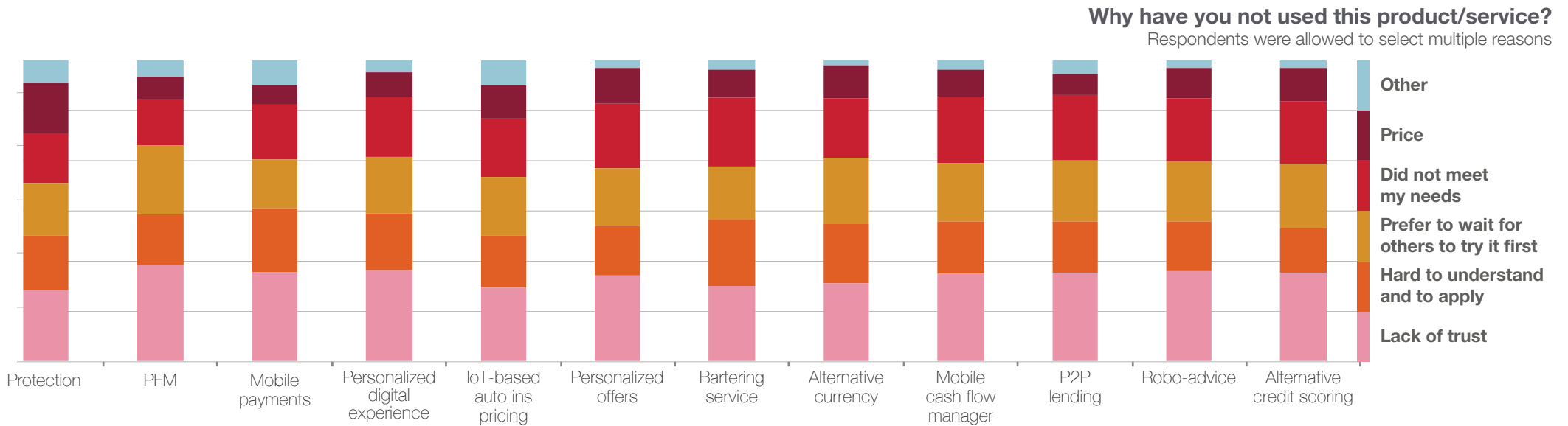
Of those consumers that see value in a given service, most are aware that the service exists (62+%). Mobile payments (94%) is most broadly known, followed by protection, personalization and P2P lending.

However, there is a **significant gap between awareness and intended use of a service**—even for those that see high value in it, with an **average of only 33% reporting current or planned use**. This gap is highest for P2P lending, with a drop from 75% in awareness to only 25% intended use among consumers who see value. Close behind is robo-advice, with a drop from 68% in awareness to 24% intended use.

This big drop from awareness to expected usage demonstrates that **firms have significant work to do to convince even interested consumers to move from awareness to consideration to purchase**. And, it calls for a closer look at the obstacles holding back these interested consumers.



Biggest obstacles to consideration and purchase are lack of trust, perceived complexity and risk aversion.



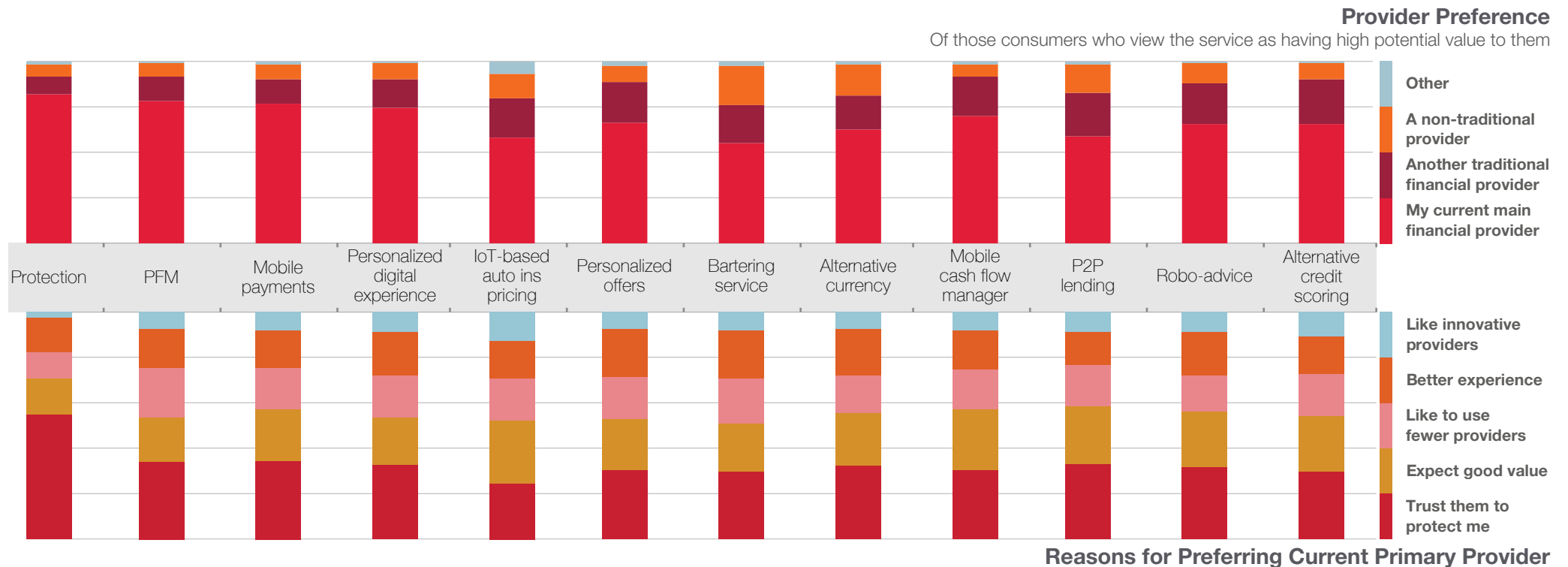
The biggest obstacle that all FinTech concepts face is a **lack of trust** that applies to the provider overall and to the sensitivity in providing a great deal of personal data. This trust gap shows the importance of new entrants finding ways to establish trust or alternatively leveraging (e.g., through partnership) trust that has already been established.

Complexity is another key obstacle, with many consumers reporting that products are too complex or the application process is too difficult. This complexity also plays into product design, with many consumers stating the existing product does not meet their needs, which can be due to product design but also to a lack of a clearly communicated value proposition.

Many consumers also are simply **risk averse**, preferring to let others try it first.

Interestingly, price is not a major obstacle at this point, reflecting relatively low entry-level pricing for new services and the fact that consumers are more concerned about core issues such as trust.

Consumers overwhelmingly prefer to get new services from their current primary provider or another traditional provider.



Good news for banks. A warning sign for FinTechs.

For all the concepts tested, **consumers overwhelmingly prefer their current financial institution** to provide them with the new value-added digital services they want. When asked why they prefer their current primary financial provider, the most commonly cited reason consumers give is **trust**, followed by expectation of good **value** and a preference by some consumers to use fewer providers (i.e., **convenience**). Behind their current primary provider, other traditional providers come in second, leaving non-traditional providers such as technology firms a distant third across all concepts (<25% in all cases and <10% for top 4 most valued).

As the data demonstrates, traditional banks are well positioned to extend customer

relationships by offering these new digital services. Those industry leaders that quickly adopt and adapt their strategies, processes and technology to provide these services, will retain and grow their customer base. Banks who do not act quickly run the risk of consumers going elsewhere, turning to other banks or directly to FinTech firms.

From the FinTech perspective, the message is clear—getting access to consumers is a major challenge, and financial services incumbents are uniquely positioned with customer access and customer equity. Successful FinTechs will find ways to overcome this hurdle by partnering with incumbents.

Partnerships offer the chance for a true “win-win-win” for consumers, banks and FinTechs.

Our 2015 study, “Financial Consumer Demands for Tomorrow’s Digital Bank,” showed that consumers across the globe have needs that incumbent banks are not fully meeting. Seeing opportunity, FinTech firms have aggressively and innovatively pushed their way into the financial services space, with the strong backing of deep-pocketed investors.

Meanwhile, established financial services firms have been working feverishly to more efficiently “**run**” the bank by rationalizing and modernizing legacy systems and using transformational outsourcing. Banks also are driving large-scale “**change**” through digitalization and automation to meet customer demands for more and better digital services while accelerating value delivery by adopting best practices such as Agile and DevOps. This work is far from complete, as evidenced by a CGI Global 1000 finding that only 4% of bank executives say that their digital transformation goals are largely achieved. Still, after many years of (at best) tepid growth, banks are eager to put greater attention on how to **grow** the business.

This emerging focus on growth by banks coupled with the aggressive entry of FinTechs sets up a classic “zero sum” game, with consumers as the prize to be fought over. But, consumers point to a different way forward; they want these new digital services, but they have reservations about the products and new providers and, thus, prefer to get them from a trusted source—namely their current primary financial provider.

Instead of a “zero sum” game where FinTechs win at the expense of banks or banks win at the expense of FinTechs, partnerships offer a “win-win-win” solution. FinTechs get access to customers, who are hesitant to trust new players. Banks gain routes to growth in the form of new products and services to expand and deepen customer relationships (and potentially to take share from their primary bank competitors). Both banks and FinTechs need to ramp up the pace of partnerships or they will miss this window of opportunity to work together to the benefit of customers, incumbent banks and FinTechs.

Messages for Banks

Window of opportunity is open—for now

- 1 Invest in protection capabilities—for the bank and customers
- 2 Define and own your innovation strategy and roadmap
- 3 Innovate internally and through FinTech partnerships
- 4 Maximize POCs/pilots while minimizing customer risk

Make customer access/trust a foundation of innovation and partnership strategy

Messages for FinTechs

Partner, partner, partner

- 1 Rethink your exit strategy
- 2 Partner to gain access to customers
- 3 Get deep consumer input early and often
- 4 Educate consumers to increase awareness and trust

Focus significant energy on partnerships; a necessity for broad customer access



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