fintechOS

Leap into the future of banking

VOX POP REPORT

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Content table

Changing the rules of the game: The future of financial services

An introduction from
Teo Blidarus

While digital transformation has been happening even before the pandemic, Covid has definitely accelerated this journey. However, many of those digital transformation programs have not gone as planned.

$1.3 Trilion **$900 Bn wasted**

Financial institutions have put in over $1.3 trillion dollars into digital transformation, but $900 billion of that has been wasted because they did not yield the expected results. Taking into account the slew of companies that have started on this journey to digital transformation, it is estimated that only about 30% have been successful, leaving 70% with almost no return on their investment.

70%

with almost no return on their investment.

Why do digital transformations fail?

There are a variety of reasons digital transformations fail, no matter how much may have been invested into it. One of the primary reasons, however, is a lack of an end-to-end approach: it is not enough to pick and choose areas in which to bring in a digital tool. Another reason is that a lot of firms have chosen technologies that are locked to a vendor, making innovation difficult, if not impossible. It may also be the case that firms are expected to take on too many integrations, which could be made even more difficult when there is a shortage of skilled workers who are able to support these integrations. Finally, in some instances. there may simply be an absence of a cultural shift, and the digital transformation does not have the momentum it needs to be deployed successfully.

Ambient financial services: a new super trend

When we speak of an end-to-end approach, we need to remember to look at financial services holistically. We need to remember that financial services have undergone many changes, with lasting effects, and they are now constantly in the background of our daily digital lives.

For instance, these days, retailers may provide embedded financial services or insurance, and telcos may provide payments and lending, and insurers may offer on-demand subscriptions.

Various companies are no longer just "staying in their lanes". The rules are changing or have already been changed. One way banks have been adapting to these changes is in the way they have begun to offer financial services through a multitude of models, varying from banking-as-a-service to mobile-only. Already, we are seeing such things as super apps, distributed finance, parametric insurance and robo-advisors enter the game. But this revolution is only getting started, and we will be seeing more innovations in this sphere in the future. In the next stage, we expect to see an intertwining of these ambient financial services to support a customer-first approach. To be clear, the old business models, where there may be a single business plan, which can take years to put into effect, are gone. We are moving to a new model, where the approach to innovations is multi-pronged, and they may be happening across the company at different speeds.

Co-option and co-existence are now mainstream

The new players have already leveraged their agility and speed to win the hearts and minds of consumers. Consider that in a recent McKinsey study, where 40% of customers said they used a fintech, 90% said they were satisfied with the experience. These new players are also able to take advantage of a looser regulatory space as well as a different set of success indicators. Revolut, for instance, is valued at around USD 33bn, which is 1.5x more than incumbent Deutsche Bank. Make no mistake, these new players are here to stay.

But we believe that there is room for both these new players and incumbents. Already, some incumbents are moving to ancillary services streams. They are targeting under-banked SME customers, they are offering embedded financing like buy-now-pay-later, they are looking at additional services that can complement core offerings.

40%

of customers said they used a fintech, 90% said they where satisfied with the experience.

Conclusion

There has not really been a major improvement in transformation. What we are seeing are continuous, if accelerated, shifts and evolutions along the digital transformation process. Instead, ambient financial services will be the new game-changer, allowing financial services providers to own a bigger piece of the financial journey. We are seeing stronger neo-players, but along with that, we are also seeing smarter incumbents who are willing to leverage partnerships to forge ahead and retain market share.

It's not feasible to recreate the infrastructure of Revolut or Chime, particularly if you already have a legacy core system that has been built on decades of data and evolution. But incumbents can take advantage of what is already on offer, and which has already proven its value: a faster and more predictable approach, that leverages a high-productivity financial infrastructure, where you can use composable digital blocks that you can use out-of-the-box and deploy at your own pace, and which you can also expand to cover an array of other services including mortgages, insurance, loans, and others. That's what we've built the FintechOS platform to be, and version 22 is even stronger. With the technology we have at hand, it is our hope that FintechOS won't just let you stay in the game -- we aim to help you win.

An industry in transition: an inflection point

From Joe Parkin, Head of UK Banks and Digital Channels, BlackRock

An industry in transition

> **Sustainability has emerged from almost nowhere in the last three years as one of the key things for our world... and we need to think about financial services' role in all of this.**
>
> **Head of UK Banks and Digital Channels, BlackRock**
> **Joe Parkin**

According to Joe Parkin, Head of UK Banks and Digital Channels at BlackRock, the industry is witnessing a once-in-a-generation shift in personal financial services, which Covid has massively accelerated.

Key Trends playing out

- Technology supernova
- Regulation
- Evolving customer expectations
- Shift in responsibility for retirement
- Sustainability

The Competitive landscape is evolving

From a historical point of view, we know that post-financial crisis, the UK retail banking industry essentially consolidated itself into five banks and a building society. In the succeeding ten years, because of these key trends coming into play, particularly technology and regulation, the industry has become hugely more competitive. In fact, for the first time in a hundred years, we saw the launch of a bank on the high street, Metrobank. Metrobank provided slightly different services, such as being open on Sundays and allowing a customer to get a card almost instantaneously - it was a re-thinking of the standard banking model.

In 2013, as a result of the changes PRA made around Capta requirements, a host of new banks, both corporate and retail, entered the market. These banks had no branches and instead had apps, which relied on engaging interfaces. As examples, we have Monzo, Revolut, Chime, and others that are still continuing to enter the market.
In addition, we have quite large and very established banks from the US, like Goldman Sachs and JP Morgan, coming into the UK and European markets as well. This means established firms in the UK and across Europe have been forced to think differently post-Covid.

One difference we have started to see is that firms have begun to really embrace hybrid models. They know they can no longer just choose either digital or in-person and must make sure they offer a model that allows both ways of banking to come together.

Another thing that is happening is that firms have started to really think about how fintech can play into their bottom line. Where in the past, incumbents and fintechs may be seen to be in opposition, and were not really talking to each other, these days, we've really seen how important fintech can be, and how they can help broaden the reach of traditional firms, as well as widen the range of services they can offer, allowing incumbents to stay relevant and innovative.

What to expect

> **Every industry is changing, finance is no different. The new leaders are creating new experiences through new business models.**
>
> **Head of UK Banks and Digital Channels, BlackRock**
> **Joe Parkin**

The old adage of buy, build, or rent is gone. In the past, firms were very clear about focusing their resources on the things they do best, but these days, that debate has been thrown open, as the need to innovate looms larger on the industry.

This is going to be an era of quick decisions. Firms are in a place where they really want to be able to quickly approve or pass on innovations and trends, depending on how these fit their plans and brand. Firms have a clearer view on what they want to explore and who they want to be as organizations. While what we're seeing now is not likely to be the end-game, the endgame may be in sight.

Most retail banks, and perhaps the industry as a whole, are getting rid of the product silos that have traditionally been part of the way retail banking has been organized. There is a greater push towards customer-centricity, which is really important, because the way people buy has changed for good (they have new expectations), and we are shifting our focus from products to people. Again, to take the historical view, in the 80's, we were very much a product-centered world. In the 2000's, we shifted towards both products and services. Currently, we are moving quickly to a relationship-centric approach.

These days, when people buy or think of a service, they think in terms of outcomes. They want a good, if not memorable experience, they want something that is personal to them, they are partial to things they can access from anywhere, which they can get immediately, and they want ongoing value. This is what we mean when we say we must move away from product silos and put customers at the heart - we need to address these consumer needs.

Possible endgame?

The prediction is that we will eventually have a single platform with the client at the center. There is a case to be made that one possible endgame to all of this is the emergence of a personal financial hub, from which customers can access pensions, insurance, banking, wealth management, etc. The market will follow the trajectory of history, and consumers will move from a spreadsheet of their finances, to multiple apps, to one centralized hub where they can make decisions across these multiple touchstones and services.

Naturally, there are barriers to entry. The first, and possibly most important, of which is that the technology underpinning most of the financial services industry isn't quite there yet. Financial firms still operate within firmly established silos, and there needs to be a consumer buy-in, or genuine engagement from customers, to make this vision of a personalized financial hub a reality. The other issue is one of data. This would perhaps relate to the industry as a whole, but there needs to be an accurate foundation of data, organized under the correct framework and infrastructure. That underpinning of data is crucial to genuinely understanding the customer and their needs, what solutions might be appropriate, and how to deliver these services and solutions to address these needs.

Other thoughts

- Make sure you have the foundations right, or else transformation could fail
- Innovation should be in the center, in your mainstream business, and not just on the side
- Ambient financial services: first, financial services should evolve to be seamless and instantaneous, and personalized to reflect and catch up with how customers have been receiving other (non-financial) services; the services and goods themselves may not change, but how we deliver and present those services must change (like traditional taxi to uber - the services, getting user from point a to point b is the same, but the experience and delivery is different)
- Incumbents and fintechs do not have to be in competition, there is space to move, what is important is to see how and what partnerships and processes can actually deliver

Final thoughts: a word on financial inclusion and well-being

For banks and the industry as a whole to truly put their customers at the center, financial inclusion, defined as the availability and equality of opportunities to access financial services, needs to be part of the bigger game plan.

Banks should not just think about this from a 'how do we improve financial services' point of view, but actually think about this in terms of how do financial services leave a mark on the world in a really, really positive way? The world is changing, and banks will continue to be pushed to redefine their purpose. With strong evidence to show that financial well-being contributes to a happier and healthier population, there is opportunity here for banks to step in and become societal agents of change.

Top technology trends in retail banking for 2022

From Zilvinas Bareisis, Head of Retail Banking, Celent

In the last 18 months, the retail banking industry has seen priorities change for everyone. The financial world has witnessed one of the steepest GDP drops in memory, and bank revenues and asset bases have been greatly hit, although, fortunately, the global banking system has proven resilient with sufficient capital levels.

As the industry looks ahead to 2022, Celent's research points to an unprecedented opportunity for retail banks to gain a stronger sense of purpose, grow the bottom line, and ensure ongoing relevance. This can be achieved by supporting the recovery from the pandemic and helping tackle some of the big issues facing national economies. However, banks need a new mindset and a new set of capabilities, especially in technology.

Zilvinas Bareisis, Head of Retail Banking at Celent, shares insight from the company's latest research on the key technology trends and imperatives for retail banks in 2022.

Optimizing Customer Engagement and Delivery

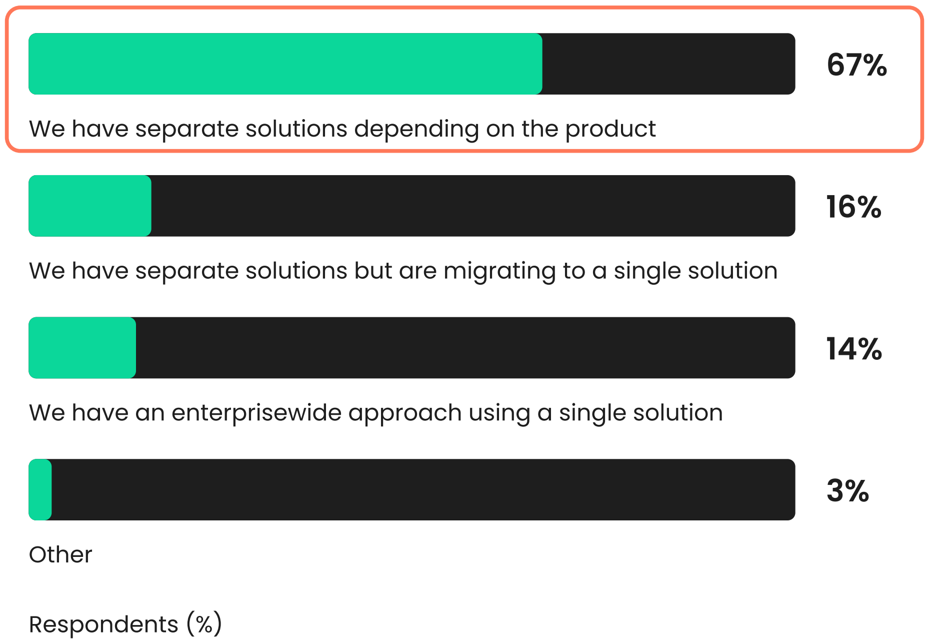
- Continue with improvements in digital account opening and servicing and measure success
- Complement digital channels with human assistance; give customer-facing staff the right tools
- Maintain efforts to rationalize the branch portfolio

Most banks know what optimal customer engagement should look like but still fall short. They are struggling through inefficiencies in the process, and misalignment with current technology, failing to implement some core functions like identity verification or a cohesive approach to products and services.

The retail banking industry needs to continue with improvements in digital account opening and servicing and put standards in place to measure success. As the industry moves forward into digitalization, banks should also remember to complement these digital channels with human assistance where necessary, while giving customer-facing staff the right tools to solve customer concerns.

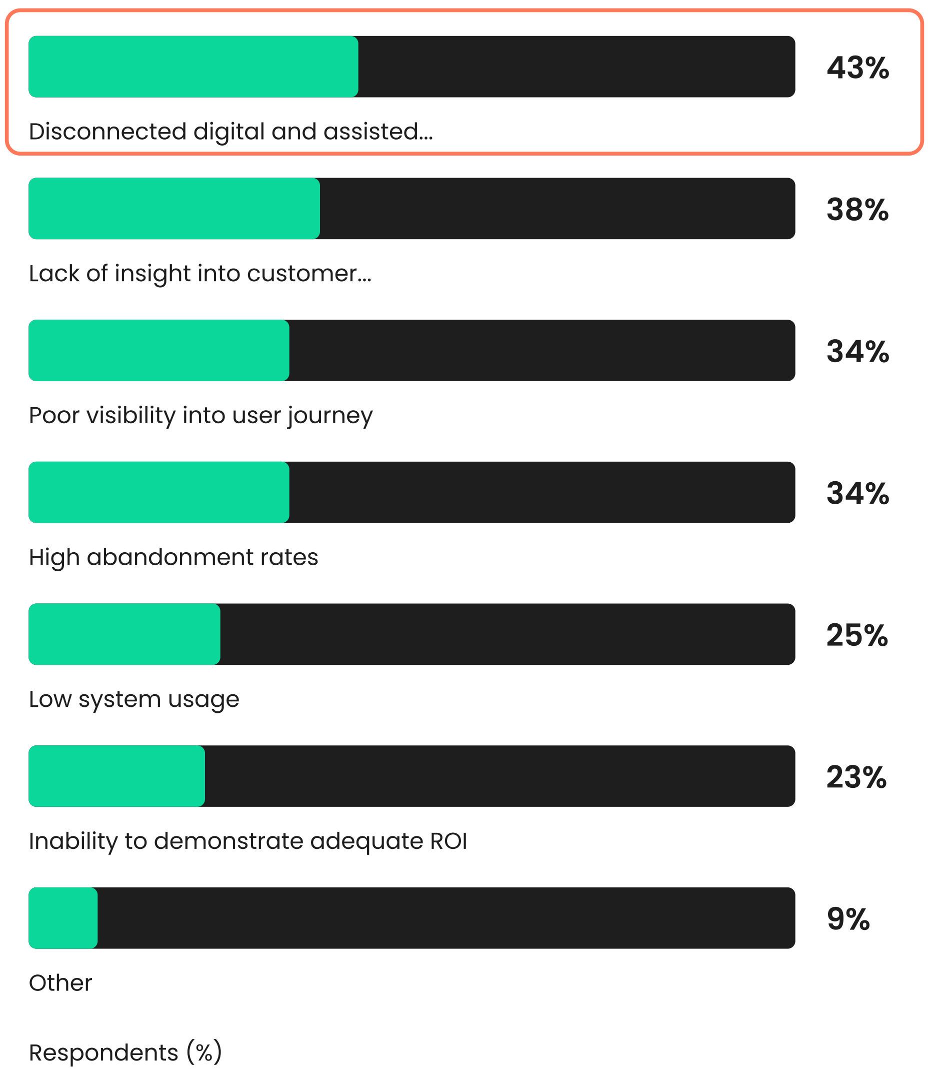
Additionally, there is a failure to properly combine human support with digital interfaces, resulting in a disconnect between these two channels. With a growing number of banks expecting a decrease in the number of branches, a rationalized approach to the branch portfolio is crucial. According to Celent's research, branches continue to be an important channel, and they deliver results. In fact, banks acquire more than 70% of customers in branches, and these customers usually start with higher account balances and are more likely to buy other products.

Approach to Digital Customer Acquisition



Q. Which of the following best matches your institution's technology architecture and vendor approach to digital customer aquisition? N=58

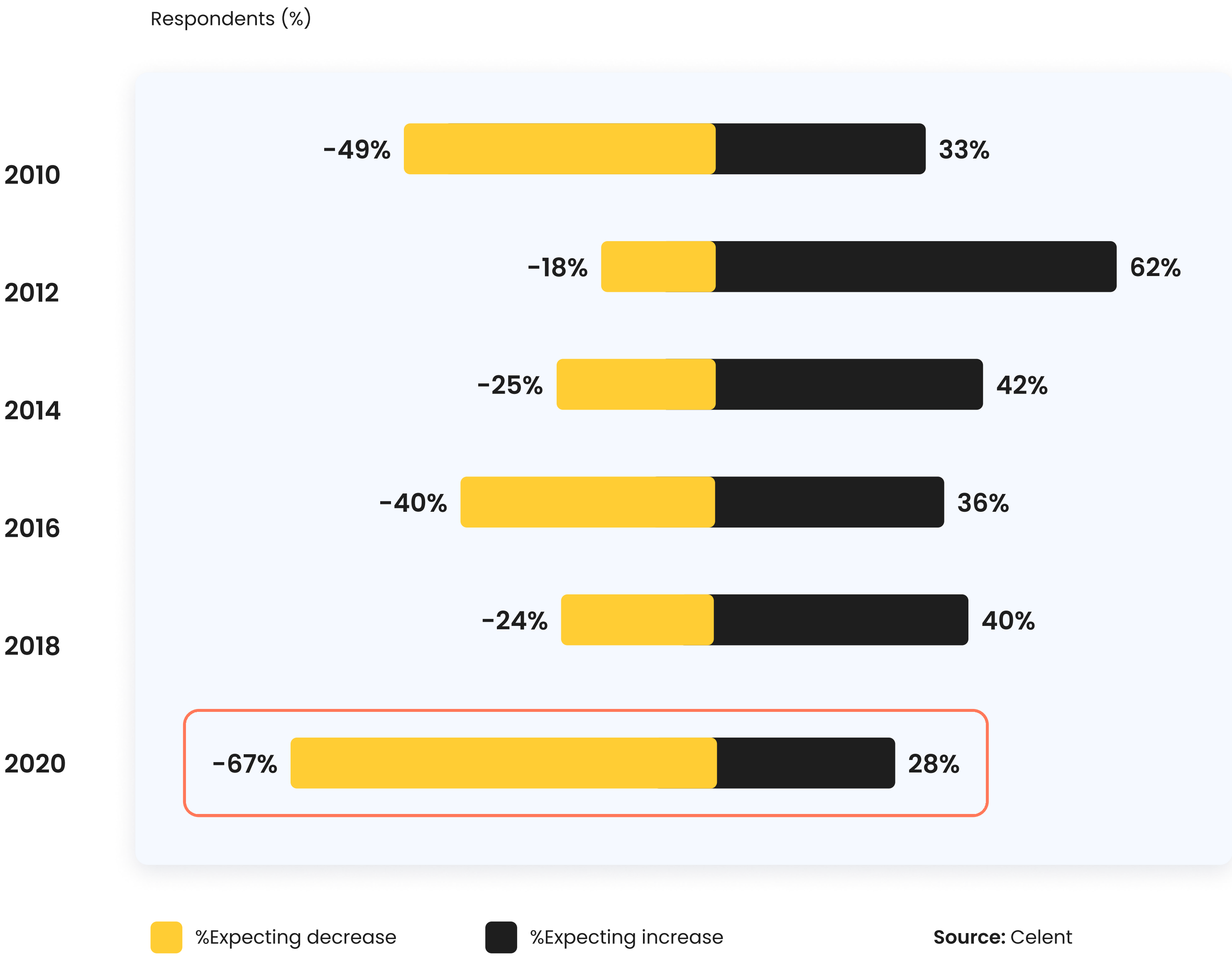
Pain Points and Improvement Opportunities



Source: Celent

Q. Which of the following best matches your institution's technology architecture and vendor approach to digital customer aquisition? N=58

Branch Count Expectations Over Time



Source: Celent

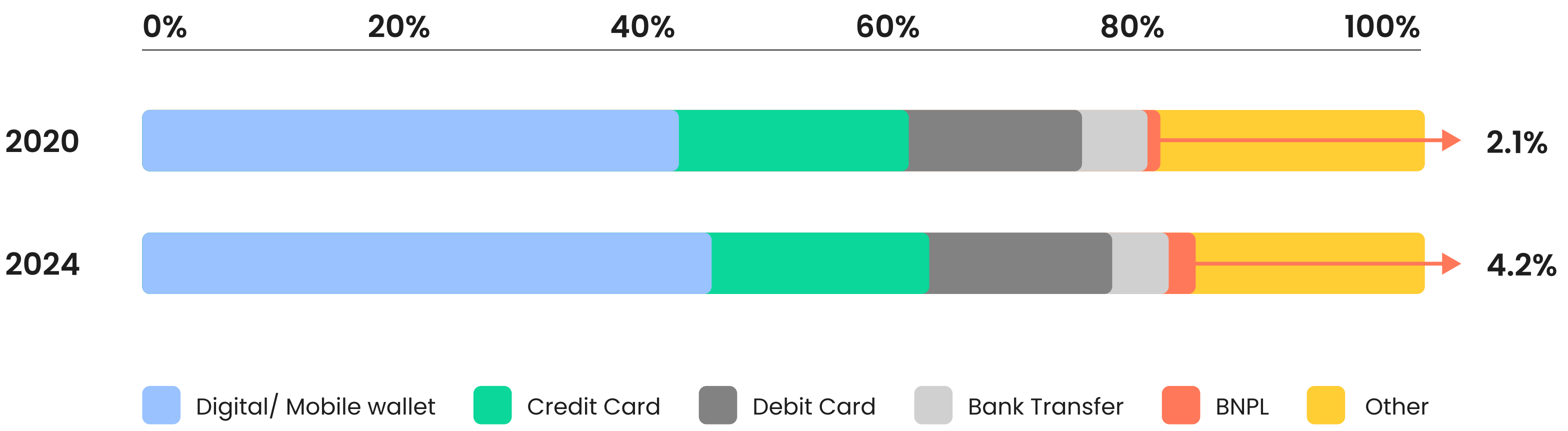
Q: Compared to your current branch count, how may branches do you expect your institution will operate five years from now? 2010-2018, n=140-160, October 2020, n=32

Embracing Disruptive Imperatives in Payments and Lending

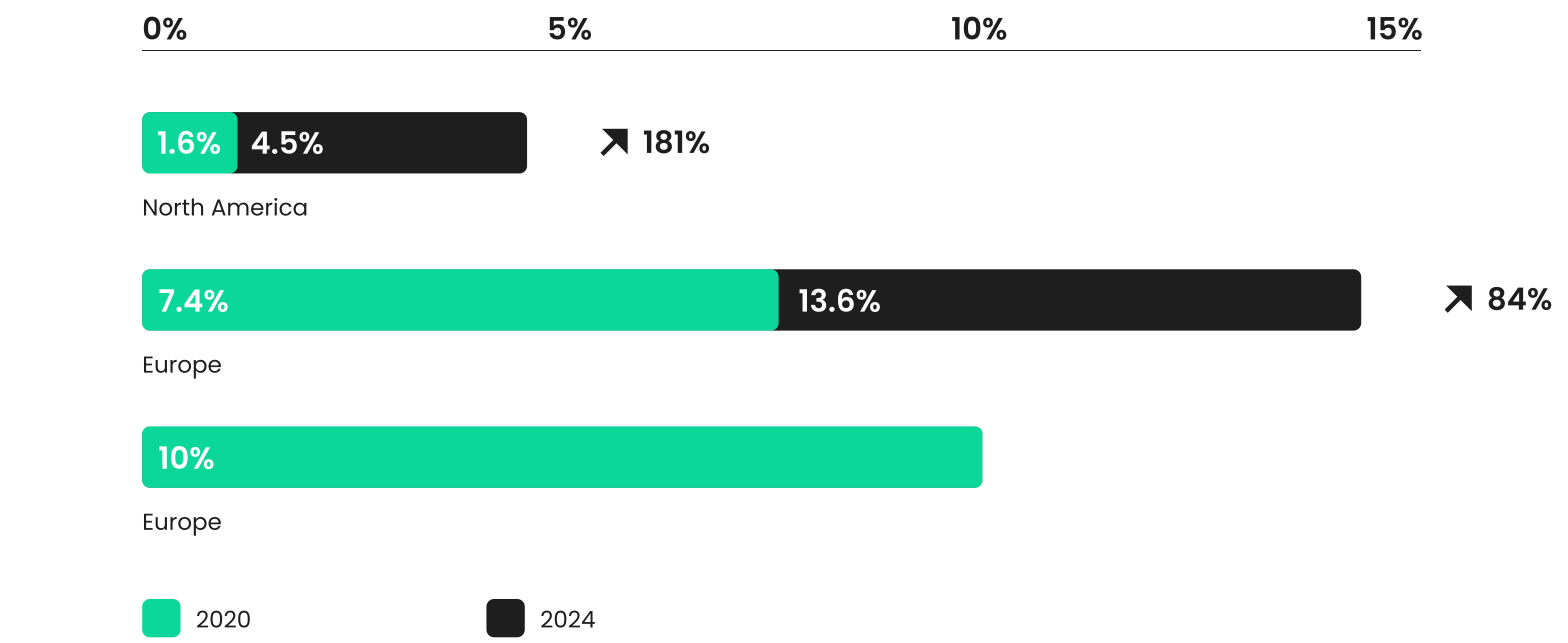
- Differentiate through card experiences
- Decide on BNPL—hope or hype?
- Re-examine solutions across the credit lifecycle

Traditional and new issuers continue to drive growth in credit and debit cards by innovating both physical and digital experiences. It should be remembered, however, that despite the growth in digital payments, physical cards remain important and are becoming a source of differentiation for banks and fintechs.

BNPL's global share of e-commerce is expected to double by 2024



... driven mainly by the North America, Europe, and Australia



However, concerns around BNPL suitability for (some) consumers are growing; regulation is increasingly likely
Source: https://worldpay.globalpaymentsreport.com/en/ - Celent analysis and publoc announcements

As for alternative forms of payment and lending, banks should decide on their position on BNPL: should they participate, and if so, how and when? Additionally, financial institutions should also re-examine solutions across the credit lifecycle.

Taking an Ecosystem Approach to Growth

- Determine your open ecosystem strategy
- Decide how to commercialize Open Banking
- Consider opportunities and threats in Open Banking Payments

With open banking now coming into play, banks must determine their ecosystem strategy. As systems and databases open up, they must decide on how they can exploit the new information, keeping in mind that the next great battleground is customer experience.

Banks are also exploring a range of strategies for participating in embedded finance, which is often enabled as banking as a service. As the technologies and platforms mature, the opportunities and accompanying risks will only grow. Banks must be prepared to make hard decisions on how the landscape of open banking, and its attendant capabilities, can be made to fit into their ongoing strategies.

Driving Product Innovation and Differentiation

- Decide what "purpose" means to you and your strategy
- Find the "white spaces" to develop offerings tailored to specific communities
- Consider opportunities and risks in crypto

Celent's research has shown that banks are now actively embracing "purposeful banking" and that means banks need to decide what "purpose" actually means for them across customer strategies, products, and operations. For most institutions, this might mean increasing their support for such things as climate change initiatives and sustainability. While the consensus is clear that climate change, diversity, and inclusion are helpful lenses for banks and financial institutions to look at when developing propositions for certain communities, there has also been an increase in interest in traditionally riskier ventures such as crypto.

Conclusion

There are five main trends and a total of 15 subtrends that banks and financial institutions need to watch out for in 2022, most of which cluster around the customer and how customers' needs and expectations are changing. Customers will continue to expect journeys that are efficient and seamless, and for their finance providers to deliver innovations that fill the gaps in the current landscape, but they will also start to look for increased personalization through the use of existing data, and even more differentiation and product diversity that is both purposeful and relevant to their identities.

The future of retail lending: automated, personalized, democratized

Customers today seek quick, easy and digital access to loans anytime, anywhere. However, the loan origination experience is often less than ideal because of outdated technologies, cumbersome policies, and labor-intensive processes. Banks looking to grow and retain their retail customers need to shift towards a customer-centric business model. According to a research report "Digital Lending Market by Offering, Deployment Mode, End User, and Region - Global Forecast to 2026" published by MarketsandMarkets, the global Digital Lending Market size will grow from USD 10.7 billion in 2021 to USD 20.5 billion by 2026, at a compound annual growth rate (CAGR) of 13.8% during the forecast period. Staying relevant in this digital age is critical as the risk of losing ground is high: Accenture's Global Consumer Pulse Research indicates that over 58% of retail customers purchase financial products online through the company's website or a third-party online service provider, 60% of customers leverage digital channels like portals, text and voice chat for post purchase self-service, and 15% use tele-helpdesks and IVR for addressing their servicing needs.

13.8% (CAGR)

the global Digital Lending Market size will grow from USD 10.7 billion in 2021 to USD 20.5 billion by 2026

> **New generations think in journeys rather than institutions, and banks should think about this and expand into ecosystem services; they need to have wider platforms. The change in customer behaviour has been an ongoing process, the pandemic has only accelerated it. The true trend is the merger of services into ecosystem architecture.**
>
> **CEO, TBI**
> **Petr Baron**

According to Petr Baron, CEO of TBI, some of the things they are looking at right now in terms of the future of the retail lending space include the speed of delivery of products and the smoothness of the delivery, and ultimately embedding these products in customer journeys. That also dovetails into the merging of different verticals in the service provided to a customer, as in the way firms like Klarna and Affirm have seemingly merged shopping with personal financing.

For Alessandro E Hatami, Managing Partner at Pacemakers.io, 2021 will be a marker of when things changed. According to him, we have been going through phases in the evolution of retail lending, and we have now come upon a "transformed" stage, which is completely rethinking what banking is about and what it can do.

Banks think they are selling services and products, but, Hatami says, "banking is the creation of a means for customers to achieve their objectives. Banks think they have so many complex objectives, but they only truly have three objectives: they want to pay somebody; they want to borrow (and gain some credit); they want to protect what they have… What they would like from their bank is a trusted third-party advisor that will help them achieve this."

Hatami also mentioned the innovator's dilemma, which is that for banks to truly become customer-centric, and move forward, they have to rethink profitability silos, possibly abandoning profitability in some segments to get better profitability positioning in segments that haven't yet materialized, as there is an element here of having to cannibalize your own business to move forward. Additionally, he says that in the future, his eyes will be on banks like Petr's, TBI, because he believes they have a perspective the big banks don't have. "The fact that big banks have money to spend doesn't mean they will be good spends," he says. Smaller banks can spend less money and have a user experience that is as good if not better.

Money, therefore, is no longer the differentiating factor. "What incumbents and big banks are squandering is their relationships and the ownership that they have with the trust they've built with their customers," Alessandro says.

> **I think we will look back at year 2021 and say this is where it all started, this is where the future began... Maximizing customer welfare, and expecting that to translate into profitability is going to be the future.**
>
> **Managing Partner, Pacemakers.io**
> **Alessandro E Hatami**

Michael Pierce, Western Europe Regional Sales Director at FintechOS, offers a slightly different perspective. As a technology vendor, he saw the industry evolve from the technology provider point of view. Initially, it was all about moving to the cloud, becoming more digital, becoming more API-based, more automated; now, he sees that what's different is the way in which banks are doing innovation.

Michael takes Uber as an example: they never set out to build the best taxi or car; instead, they tried to solve the pain points that consumers were experiencing (waiting for a taxi, finding one, etc). He thinks the banking mindset has also started to shift this way, and has started to think about solving customer problems, hence the rise of BNPL, embedded finance, and similar initiatives. They look at their business customers, and they want to how they can help their customers (the retailers) increase their conversion. This opens up an opportunity by banks to regain the trust and loyalty that may have been lost in previous years. They need to leverage extensive data they're sitting on and what they have built to gain better insights so they become more trustworthy in the eyes of their customers, which helps in retention and profitability.

> **We, as a society, are moving into what I classify as an experiential economy.**
>
> **Regional Sales Director, WE, FintechOS**
> **Michael Pierce**

Conclusion

The future of retail lending hinges on a shift in how innovation is realized. It isn't enough to simply throw money at the problem, banks and other financial institutions need to be strategic and purposeful and think about the ways solutions and products are delivered, as well as the speed and efficiency of that delivery. There is also an ever-increasing expectation of always thinking about how to solve for the customer and always putting the customer's needs first, evolving as the customer's behavioral patterns themselves evolve, and gaining and maintaining customers' trust for the long haul.

The game of loans: bridging the SME financing gap through innovative lending

The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of global MSME lending. East Asia and the Pacific account for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%), and Europe and Central Asia (15%).

The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap when compared to potential demand, measured at 87% and 88%, respectively. About half of formal SMEs don't have access to formal credit.

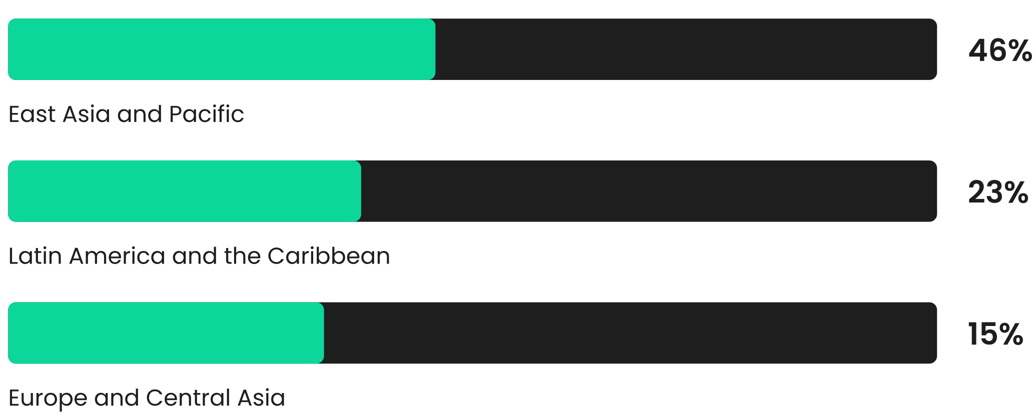
The financing gap is even larger when micro and informal enterprises are taken into account.1

Additionally, a recent study based on extensive SME survey data from 135 countries shows that access to financing was reported as the most serious obstacle to their businesses. SMEs are less likely than large firms to be able to obtain bank loans, and instead they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. Globally, about half of formal SMEs do not have access to credit from regulated financial institutions.2

65 milion firms

have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of global MSME lending

Unmet financing need



Small and medium enterprises (SMEs) play an essential role globally in driving economic activity and job creation in all economies. Micro, small, and medium sized businesses account for 60% to 70% of the gross domestic product (GDP) of low-income, middle-income, and high-income countries. They represent about 90% of businesses and more than 50% of employment worldwide3

> **SMEs are the heart of the economy in any country.**
>
> **Executive Director-SME, Raiffeisen Bank**
> **Raluca Nicolescu**

For Raluca Nicolescu of Raifessen Bank, SMEs are an important growth area for any bank, and SME lending is definitely a growth area. SMEs, after all, make up more 80% of legal entities in most countries, particularly in Europe. They bring substantial value to the GDP, and in terms of employment, as a segment, they employ the majority of most national populations.

Of course, SME lending is not without its challenges, one of which is that what SMEs actually need is a combination of both bank financing and capital equity. Banks are sometimes reluctant to risk SME exposure because of SME's low capitalization.

Another important factor is information asymmetry. Because banks and SMEs can have so little overlap and alignment, banks may have a limited understanding of individual SMEs' business profiles, needs, and how they might be able to develop. Particularly with micro-businesses and start-ups, there will be a lack of credit history, a lack of profiling, and so KYC is also very, very difficult for an SME.

Raluca also acknowledged the issue of new players coming from many directions. SMEs are using P2P to gain access to both funds and payments. There is a plethora of new e-commerce platforms, as well as new payment models like BNPL. The landscape is changing very quickly. But, Raluca, adds, one way that banks can help these SMEs is by enhancing financial literacy. She also believes that partnerships and collaborations will be important. Some big banks have lost a lot of money trying to mimic innovation but have failed, and a new approach, one that possibly exploits the expertise of another player, may be required.

As for innovation, Raluca is convinced that both collaboration and learning from new players will be crucial.

80%

SMEs, after all, make up more 80% of legal entities in most countries, particularly in Europe.

While Sue Douthwaite, Financial Services Non-Executive Director & Board Advisor, Melton Building Society & PhysioMedics Limited, believes SME lending should be a good growth segment for the banking industry, she is also aware of the issues the pandemic has brought to a lot of incumbents, and possibly even some fintechs. Capital is limited, she says, and there may be hesitation to invest in what may be seen as riskier initiatives. Coming from another angle, Sue opines that fintechs seem to be coming up with plaftorms that are mainly for consumers, leaving SMEs out. She explains that there is an under-investment in SME-oriented platforms and that large banks really need to understand that SMEs are a diverse group, and each business will have different needs and different methods or strategies. Obviously, catering to that can be expensive, possibly much more expensive than providing frictionless support to regular consumers, which is also an issue.

Sue believes that in the future, customer loyalty will be the true battleground, and banks and similar institutions will need to make sure they gain the trust of their customers. Sue adds that there is a lot of space to innovate in data, which should engender customer trust. In fact, incumbent banks are sitting on a goldmine of data and there are many opportunities to exploit this through AI and machine learning.

> **“SME is the lifeblood of many economies. But with the pandemic, a lot of traditional banks, and maybe even some fintechs, are thinking more carefully about how and where they spend their capital. They may be looking at retention, and therefore seeking to streamline and digitalize experiences for their existing customers first.**

**Financial Services Non-Executive Director & Board Advisor,
Melton Building Society & PhysioMedics Limited
Sue Douthwaite**

For Catalin Dediu, it is obvious, of course, that it's very expensive for a bank to market to a segment of one. From an SME point of view, the process is the same whether you have 200 employees or are working out of your backyard; whether you're a farmer or a start-up, there is no differentiation in requirements or standards, which can make it hard to qualify for financing. It's also a cumbersome and mostly manual process, which can be fragmented, so time to money can also be quite long. But this is, of course, where a partnership with a low-code platform provider is an advantage, as it then becomes easier to create products and customer journey that can target the specific needs of various SMEs.

Conclusion

While SME lending holds huge potential for banks and similar financial organizations, the highly differentiated nature of individual SMEs, the complexities of the KYC process, and the expense of orchestrating a platform oriented to SMEs are hindering growth in this segment. To bridge the financing gap, an investment in technology oriented towards SMEs is necessary. Fortunately, with FintechOS and its vision of enabling banks to not only personalize customer journeys but also design their own products, this technology gap can be solved in an efficient way.

Reinventing the mortgage experience with digital innovation

When it comes to digital journeys, mortgages need a radical rethink. How can banks and other traditional lenders improve digital mortgage lending—and fast?

Mortgages have historically been a profitable business for banks and lenders. According to the Mortgage Bankers Association (MBA), independent mortgage banks and mortgage subsidiaries of chartered banks made an average profit of $4,202 on each loan they originated in 2020, up from $1,470 per loan in 2019. The jump is obvious. Additionally, mortgages' major impact on the broader economy is undeniable. In the US market, the mortgage industry usually contributes 10% to the country's GDP, which was estimated at $22 trillion in 2020. In Europe, the leading markets are United Kingdom (UK), Germany, and France. Residential mortgage lending is the largest in the UK, reaching a value of 1.66 trillion euros as of the fourth quarter of 2020.

Last but not least, mortgages continue to have a significant impact on consumers' personal finances, accounting for 79% of loans to households across EU Member States (MS) in 2020, up from 77.5% in 2015.

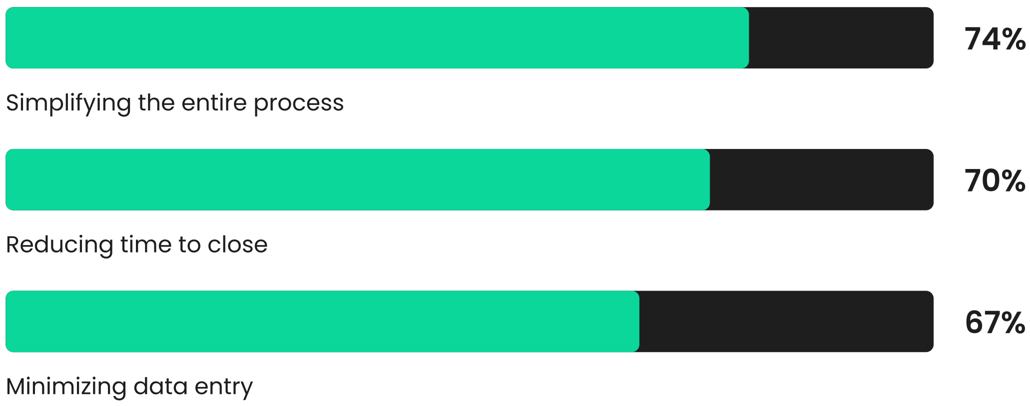
> **However, the COVID-19 pandemic lowered, at least temporarily, the demand for these loans and led to a general decrease in the number of mortgages granted.**
>
> **EBA Consumer Trends Report 2020/21**

What's driving digital mortgages?

Challenges in the current mortgage lending process that are driving adoption of digital mortgage include a lack of transparency and visibility, high operational costs, long processing time of mortgage loans, lack of delightful user experience etc.

ICE Mortgage Technology launched a new survey in May 2021 which revealed a striking perception among lenders: 99% of them believed that technology could help improve the mortgage application process. Some of the benefits that technology brings to mortgage application processes, as indicated by lenders, were:

Some of the benefits that technology brings to mortgage application processes



Similar research from Fannie Mae found that 48% of mortgage lenders are putting "significant effort" into their front- and back-end digital transformations. And nearly all lenders (91%) believe the scope and structure of their work will be changed by digitization over the next two to three years. By 2025, 63% of mortgage lenders expect to be able to handle the end-to-end borrowing journey fully through digital channels.

Consumers increasingly prefer online and mobile transactions, and 80% of potential mortgage borrowers have a preference for a completely online loan application experience. Meanwhile, fintech companies and other non-traditional financial institutions and lenders are gaining increasing market share by going directly at these changing consumer expectations — and attacking the slow-moving financial services industry.8

80% of potential mortgage borrowers

have a preference for a completely online loan application experience.

> **From a digital perspective, data is the key. For me, data is the key that will totally transform this journey for customers, and I think some of the things we'll be able to do with data, to make the customer journey easier, smarter, and more personalized, is what's really exciting. We are only at the foresteps of what we can do with data.**
>
> **Avant Money chose FintechOS because they offer the agile capability to continue evolve products for customers, because what's good today may not be enough tomorrow.**
>
> **Head of Mortgages at Avant Money**
> **Brian Lande**

For Brian Lande, Head of Mortgages at Avant Money, the biggest trends he's seeing in terms of mortgages are still around digitalization, albeit with more nuance. "Every bank is doing something in digitalization. For me there is a difference between digitalizing current analog processes versus those who are just adding something digital." He also adds that another trend is the degree of vertical integration, the result of which is that mortgages aren't just being offered by banks, they're being offered by real estate companies, by other companies, which is an interesting thing to see.

Additionally, the advent of open banking, which has definitely democratized data, is also something to watch out for. Other players are now able to access customer data, which allows personalization on the customer side. On the institutional side, there is a lot of room for innovation. "We have to start thinking differently about what propositions are going to work for the generations that are coming," he says.

> **Bank should be the guiding light in the journey of the customer, long before he needs to buy a house, or even after, when he might find himself in difficulties.**
>
> **Vice President, First Bank**
> **Madalina Teodorescu**

For Madalina Teodorescu, Vice President, First Bank, one of the biggest trends has been the increase in mortgage origination, which was influenced by both changes in consumer behavior and the pandemic in some countries. In terms of banks' branch portfolios, and how that will affect mortgages, she believes that will differ from one market to another. Regulations and legislations will be different. So when thinking about digitizing, it's inevitable that every financial institution adapt to the market's requirements. What is truly important is that banks begin to use data to put the customers at the center. Mortgage customers, for instance, have a long-lasting relationship with their banks or providers. These mortgages can last up to twenty or thirty years. "We need to think about how we provide services over that time, including possible refurbishments or changes in installments, and truly cater for the lifecycle of the customer's mortgage." Madalina also thinks the ecosystem is important, because it will help the customer address needs that may come up easier and faster through their home bank.

"A lot of people still have to realize that by digitizing what you have today, you will not transform, and transformation is the key word in terms of what we'll see next. People are starting to think differently in terms of how they implement technology.

It's not about digitizing what you have and starting to plug in solutions. You will never be seamless end-to-end if you go about it that way. What you've got to start thinking about are platforms, and there are platforms out there, but platforms don't always come with a connected ecosystem. And that's really where it begins: what are the digital capabilities that your platform will bring to you? You need to start thinking about that connected ecosystem. The technology is the enabler, but you also have to think about how you can get that system to reinvent a home-buying journey for customers, and move beyond selling a mortgage, and move into this next generation thinking of helping someone find a home, helping someone get a home, and helping someone move into that home.

Partner, EY
Niall Corrigan

Coming from the product side, Niall Corrigan, Partner at EY, says "margins are being really squeezed, so people are looking at cost. Cost is about time to serve, it's about manual processing, it's about reducing the friction end-to-end. People are starting to think about how they can increase the value they get from mortgages, not just about in terms of going after higher value customers or customers that are less likely to churn, but also in terms of non-interest income." Niall knows that there is a need to adapt. For instance, "for some mortgage propositions, there is no need for a branch. But we also recognize that it's not digital only. It's digital first, but it's not digital only."

There will be problems, and for that small margin of customers who encounter these problems, he says it's critical that banks are able to offer solutions, in whatever format is most convenient to the customer, and that at the same time, the bank's own people are empowered to provide these solutions.

Conclusion

Improving the mortgage process will necessarily involve putting customers at the center, as well as a rethink of how the next generations may access mortgages in the future. There is also a need to use existing data to cater to the needs of the customer during the lifecycle of the loan, which will both aid in customer engagement and retention. Finally, while digitalization is necessary, mortgage providers must also be able to adapt and exploit whatever touchpoints are most accessible to their users, and empower their personnel to help solve customer issues when necessary.

End-to-end digital solutions are here: FintechOS 22

Mike Fullalove, SVP of Strategy at FintechOS, gives an explanation of how things stand and what FintechOS can bring to the table.

Defining the problem

FintechOS was created so that financial institutions can solve and deliver for their customers. As with any good solution, however, we must first know what the problems are.

In the UK, 40% of people have less than GBP 100 in savings. That means if something in their home breaks, or a family emergency comes up, they cannot afford to fix the issue. Pensions are an even bigger problem. Globally, underfunded pensions amount to more than USD 10 trillion, which means people won't have enough money to live the life they want to live when they retire. In life insurance, the gap is smaller, but it's still greater than a trillion dollars. That's also worrying because when underinsured or uninsured people die, they may leave their families without a source of income and in difficult financial straits.

There are also the unbanked populations. 1.7b people in the world don't have a bank account, and therefore they can't do things that most people see as standard: make payments, take a loan, get credit, etc. The lack of credit history is also an issue in SME lending, which is another problem people may encounter: they can't get the capital for their businesses, which hampers their livelihoods. Finally, there is also a gap in knowledge. A lot of people have a lack of understanding of financial products, and because of this, they don't know what they should be doing, or how these seemingly disparate elements may fit together.

Overlaid on all this, of course, is spending. Consumers' real spending went up over the course of the last 20 or 30 years. In plain terms, that means people bought consumer goods rather than putting money away for savings, retirement, health or insurance. With that in mind, there is an argument to be made that the financial services industry, and its accompanying ecosystem, including technology companies like FintechOS, has not really made life easier for the consumer. The issue then is that the industry as it currently exists is not working for most people, and it is not solving their problems. The good news is that considerable work has been done to address this. However, is the pace of change good enough? Because while the world has gotten increasingly digital, the financial services industry has not really kept pace. Consumers now expect from their financial providers the same kind of customer experience that they get from e-commerce. And as the business models evolve, customers will have access to more choices, more players. But while the industry is now beginning to see the start of customer personalization, the reality is there is still so much room for improvement.

Currently, there is an increased blurring of lines between banks, insurance companies, wealth managers, and even retailers and telcos, resulting in greater complexities. New players are also constantly entering the market, from neobanks, insurtechs, big tech, and fintechs. And fintechs are even buying other fintechs. Even with all these changes, however, it doesn't seem like the industry is changing fast enough.

It still takes months to apply for a mortgage. There is still no unified digital ID, which could allow consumers more efficient access to products and services. In many countries, pension pots are still kept discrete and are impossible to aggregate, and in many cases, employees may lose count of how many pots they have altogether. There is also no way to get truly personalized health insurance that's based on your health data.

The Path to a Solution

One of the biggest roadblocks in all of this is that financial institutions have old legacy systems that don't actually allow them to innovate or deliver solutions that are at pace with demand. This means these institutions are hindered from operating their businesses as efficiently as they would like. And for obvious reasons, ripping out these legacy systems all at once pose too many risks, with the process being both complex and cumbersome.

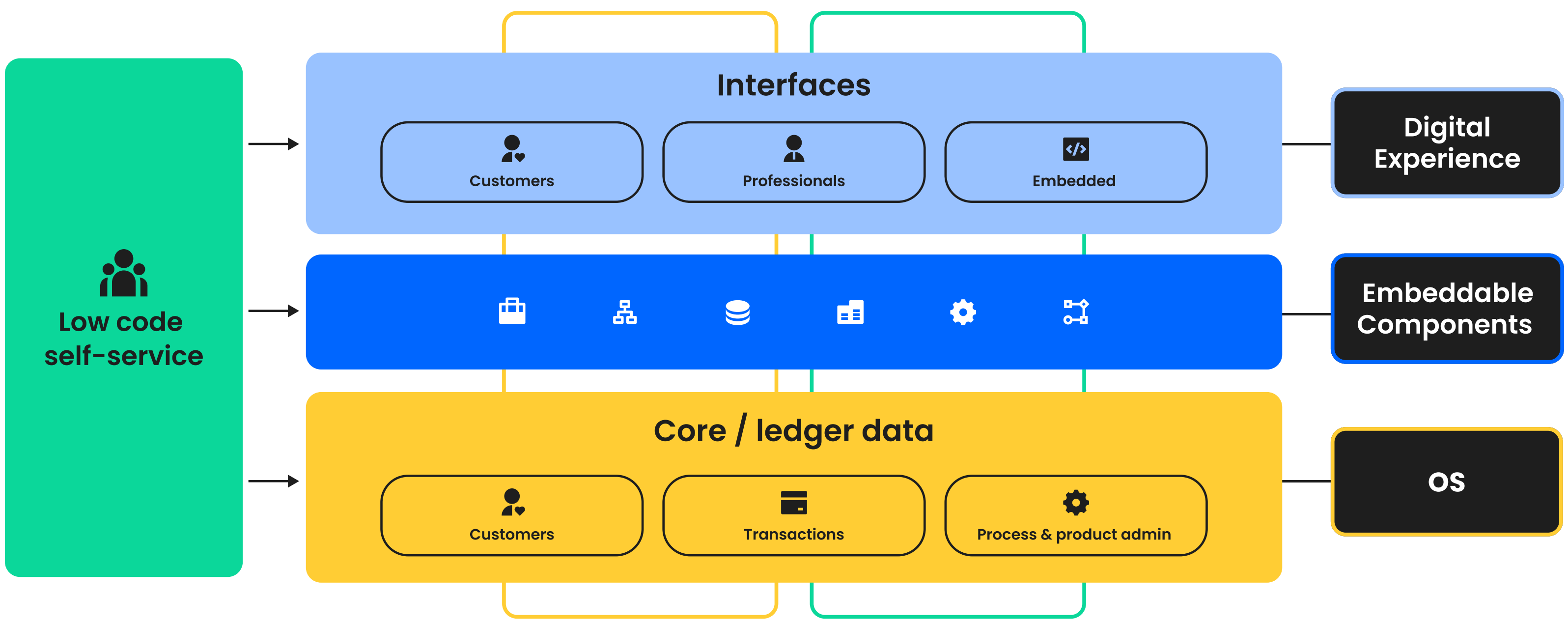
There have been attempts in the past to solve the problem by working with fintechs and other technology companies, many of whom are using new cloud-based technologies. On their own, many of these solutions look very good; they are based on clever ideas and good technology. However, it wasn't enough. These attempts hit stumbling blocks that led to even more complexities and issues, because while each attempt at a solution may have worked perfectly well on its own, the finance industry is powered by a complex system of functions and services, and each solution didn't just need to work, it also needed to be able to integrate with other solutions. It is this difficulty in integrations and a lack of compatibility with other technology that caused a failure to truly deliver.

What is needed, then, is a specific kind of technology that is modern, composable, and functionally strong. The ideal system is one that can be built with blocks that can then be made to fit together. It needs to have the right products, that are delivered in the way that the financial services company needs. It needs to be secure. And it needs to be easy to integrate. Technology layers need to not only work properly, but also talk to each other efficiently.

The answer, of course, is to bring all these together in one proposition. And as banking and insurance will be tied ever closer to each other in the future, the technology needs to be able to work for both industries.

The FintechOS vertical solution aims to bring together all the necessary components for a successful digital solution. From the customer interface, which will provide a smart and personalized digital experience to customers, to the data layer which will be able to access embeddable components so it can integrate with external data, and down to the core operating system, which is delivered with low-code self-service, assuring flexibility and control for the financial institution.

This low-code platform means that people can deliver new products, new customer journeys, new business logic without writing any code.



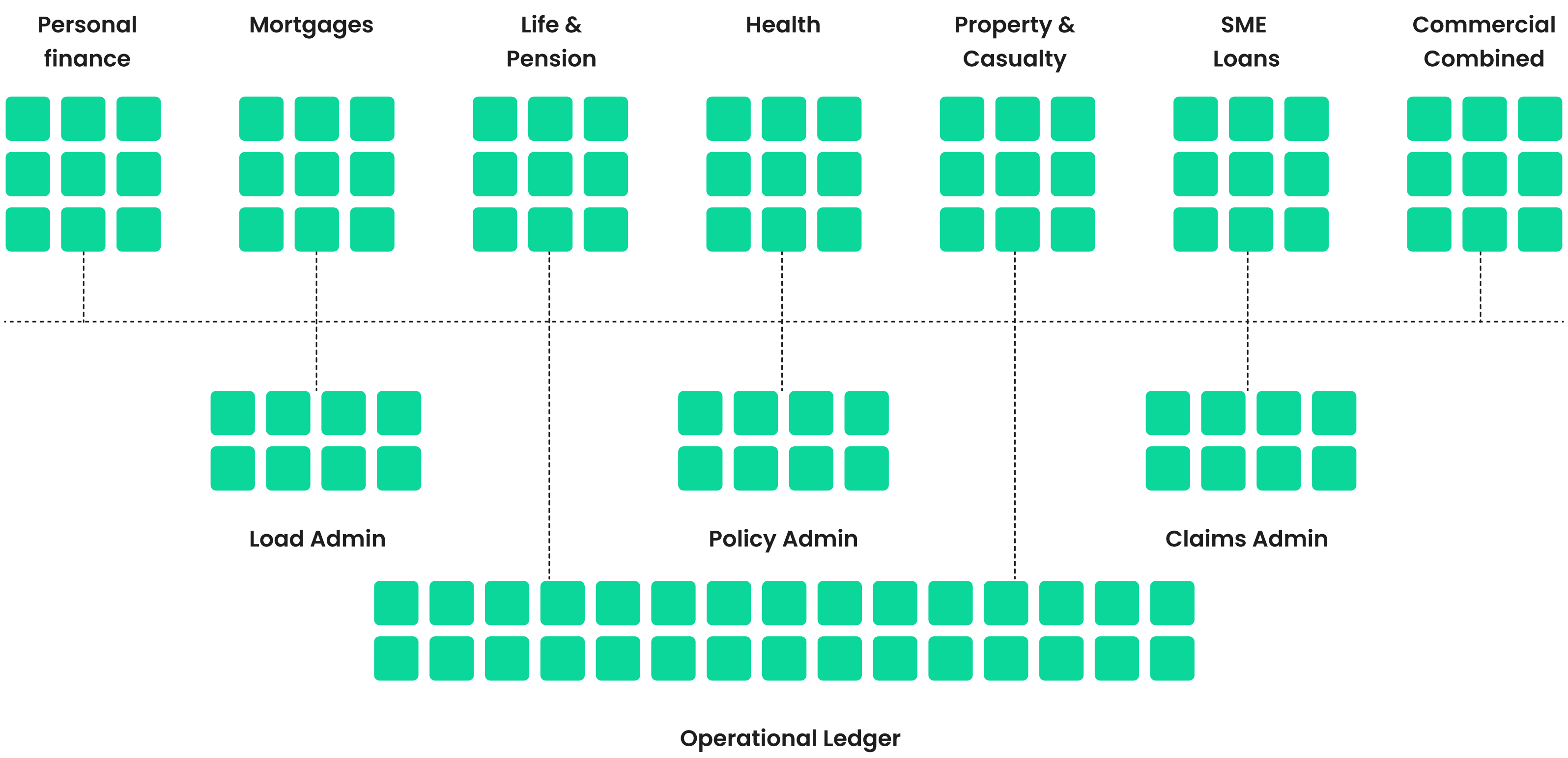
How does it work?

For version 22 of the FintechOS platform, core solutions have now been brought to the fore.

The core solutions are the product factory, which include Personal Finance, Mortgages, Life and Pension, Health, Property and Casualty, SME loans and Commercial (combined). These core solutions sit on top of a specific admin platform, which sit on top of an operational ledger.

Simply put, with the product factory, you can build what you need, and you do can do

Core solutions

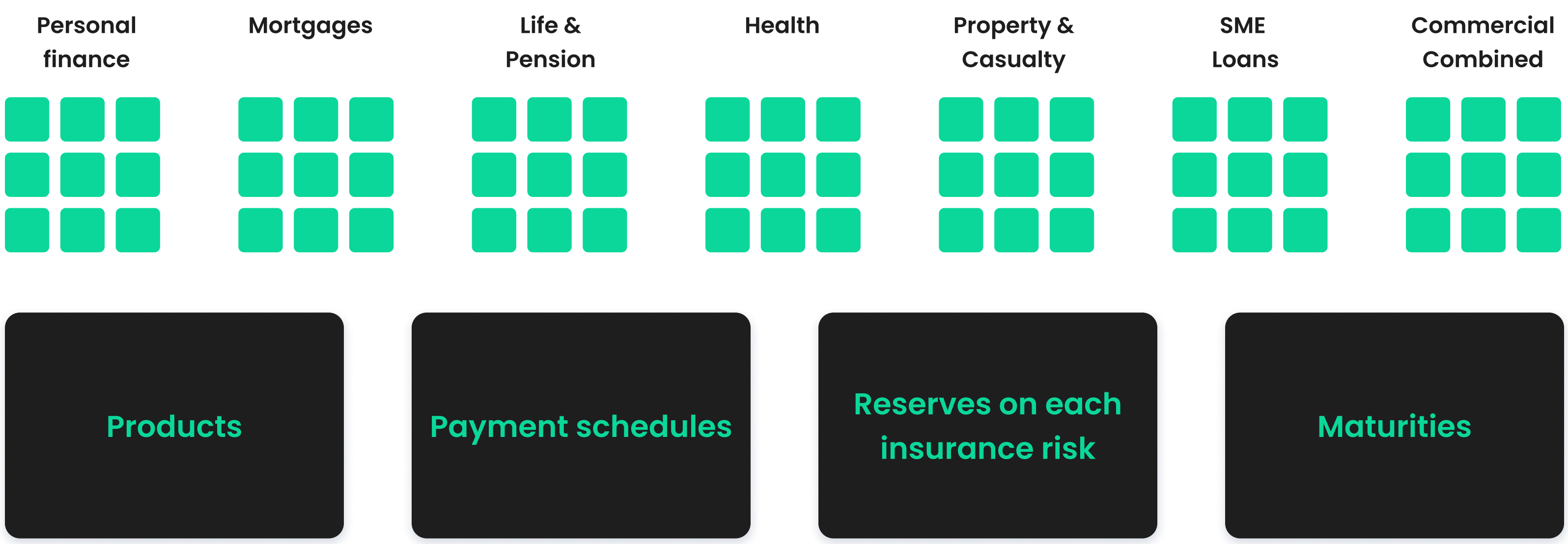


it at speed. You start with a product, which may be a vanilla mortgage, or a buy-now-pay-later function, or health insurance. You then move to payment schedules, so you can define the payments needed in each of these different products. For insurance products, your next step would be to create reserves for each insurance risk. And then finally, for each of these products, you will be asked for a maturity.

Once you've gotten a handle on your products, you can start managing them. You can do this using the core admin. Within banking, you have the loan admin, which would administer interest rates, fees, and any early repayments. Within insurance, you would find the policy admin, where you can cancel the policy, alter the policy, or simply allow it to mature; and you will also find the claims admin, which is how you would manage consumer claims on insurance, including first notification of loss.

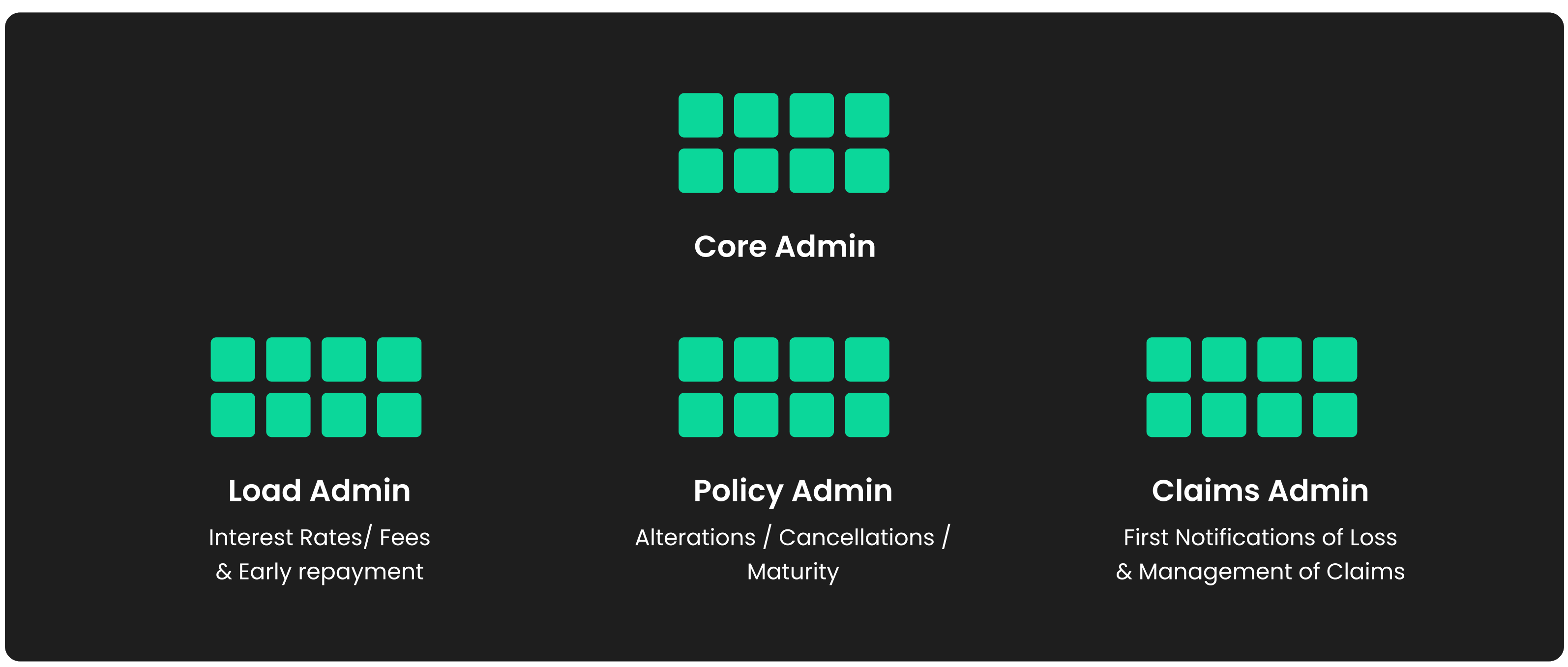
> **The way we would like to think about it is, if you can imagine it, we would like to help you build it.**
>
> **SVP of Strategy at FintechOS**
> **Mike Fullalove**

Product factory: build what you need quickly



Finally, we have the operational ledger. This can be configured by a legal entity, and it can record accounting entries and then expose it to the general ledger. It stores accounting information and can create an accounting balance.

Managing your financial products



How can we help

What's absolutely key to remember is that the customer's primary need is financial wellness. When they move through their life, they will need different products to establish some standard of wellness, and they will need these products delivered at the right time and in a way that makes sense for them.

Let's take the mortgage for instance. When a buyer applies for a mortgage, he will also need a current account. He will likely also be asked for home and life insurance, which might get him thinking about health insurance. If he has a pet, he might also consider pet insurance. So each customer has a lot of possible interconnected needs that may originate from one single product. If we are really looking at customer-centricity, then the aim should be to take a whole view of the customer, and then be able to deliver the products he needs in a seamless and efficient manner, as quickly as possible.

That is what FintechOS can provide: one technology stack that can allow the customer to achieve his primary goal.

None of us know what the future will look like, all we can guarantee is that it will look different. That's why it's important to build technology in a modular way, that is flexible and easy to scale to any future business model. FintechOS provides a single integrated stack, with both the digital customer engagement and the core system, delivered together.

When people talk about personalization, they don't often think about the complexities that come with it. Simply put, greater personalization calls for more products, more nuanced customer journeys, and bringing this all together in one low-code platform is key.

This is why we've created FintechOS 22, so we can allow this to become a reality.

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Schedule a free demo

Roll-out personalized digital products and customer experiences as quickly and efficiently as your technology driven competitors.

- Let us show you how we're transforming today's financial technology, closed systems and prohibitive pricing.
- Bring product and customer data together for a truly customer-centric approach.
- Learn more about how we embed continuous innovation into your company.

Book a demo

Scan the code below or visit **fintechos.com** to learn more about us.

For any other inquiries, please reach us by email at:

fintechOS

Introducing FintechOS, the high-productivity financial infrastructure. Our nimble, modular platform empowers existing systems, builds differentiated financial services, and radically transforms the customer experience. Currently, more than 50 financial institutions of all sizes, across the globe are powered by FintechOS technology.

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