Trust is what traditional institutions bring to the digitising financial services table

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While it’s true that the digital era will completely reshape the financial services industry over the next five years, there is still one thing the industry has that is irreplaceable: the relationship of trust.

That relationship should allow traditional institutions to largely retain market share by assuring their stakeholders of financial certainty and governance. It’s the trump card. But it’s a card that will have to be played astutely, albeit in an altogether new game, with new rules and players. To be part of the game, financial services institutions have no choice but to change not just the way they operate, but the way they perceive their role in society.

What’s the urgency?

According to americansecuritytoday.com, four of the top ten retail banks will be displaced by digital disruption within the next three years.¹ McKinsey research indicates that digital laggards will see up to 35% of their net profit eroded. By contrast, institutions that embrace digital are expected to see a profit upside of some 40%.² However, only 27% of banks are taking proactive steps to survive the digital revolution by disrupting themselves.³ Part of the reason for hesitation is funding. Research by NTT Data has found that 35% of banks’ IT budgets is spent on maintaining their legacy core deposit systems.⁴ That doesn’t leave much for the move to digital. In addition, some 75% of bankers feel that their processes are incapable of adapting quickly enough to change.⁵ These processes are not purely technical. The financial services industry may in fact be mired in a thousand-year legacy system, rather than just a three-decade technology bind.

The gatekeeping habit

From their primitive origins to their sleek modern incarnations, banks and insurance companies have held a special relationship of trust with the public. They have been the visible institutions handling and managing peoples’ and organisations’ wealth. Over time, various intermediaries have been added to the ecosystem, but the banks’ position as secondary or opaque participants has never changed. People and companies continue to entrust their money to the large financial services brands. Even in times of economic crisis, such as the one triggered by banks themselves in 2008, there has been no large-scale public rejection of the established brands.

It’s not on the balance sheet, but this implied trust is a critical asset.
Can trust be democratic?
What the industry needs to be wary of is letting this trust trap it into complacency. After thousands of years of always behaving and functioning in the same, often autocratic or dictatorial, way many financial institutions are now having to confront a major cultural challenge.

Bitcoin and its underlying system, blockchain or Distributed Ledger Technology (DLT), have proved that the time-consuming, efficiency-retarding complexity of conventional operations and the regulatory systems that compound them can be reproduced by a simple and secure digital distributed ledger.

Initially, critics predicted that bitcoin and similar digital currencies would be security sinkholes. In fact, using a distributed, shared services platform like blockchain now appears to be far more secure, flexible and real-time than the centrally-managed platforms and repositories that have been the norm in conventional financial services.

It also appears that people are willing to be democratic about trust. The peer-to-peer exchange of security fundamental to distributed ledger’s doesn’t require the participation of an established bank in order to have credibility with users.

In the same vein, a Kenyan fintech startup using the cloud and a smart app is providing international money transfer services – in seconds, and for no charge. In a matter of months, they have demonstrated to thousands of delighted and trusting users that the costly, time-consuming processes of conventional money transfer systems are pointless and the adoption of blockchain on its roadmap will potentially deliver further benefits and savings to its community.

In another example, using a cloud-based, pay-per-use model, a Canadian fintech has reduced a single block trade allocation of dollars. There was a time when such institutions wouldn’t have trusted cloud-based services. Now it’s their differentiator.

Is the mandate right?
For most established financial services organisations, the current mandate is to drive out incumbent costs, in terms of people, systems, and processes, in order to compete with fintech startups.

These things are essential as part of addressing the digitising landscape and its exponents which are rapidly tearing down the ramparts of traditional financial services operations and service delivery.

They’re not enough, however. While fintechs are developing an aura of trust just through their ability to meet people’s digital needs in a more relevant and cost-effective manner than conventional industry players, banks are still managing most of the value exchange by human activity.

This gives the established industry players automatic entry into the distributed, collaborative, democratic system of economic exchange that is rapidly evolving. This new system is the antithesis of the ring-fenced, inward-looking, standards and process-based, brick and mortar-based one that society has known in the past.

However, the bitcoins and blockchains of this world don’t yet have universal or, indeed, official credibility. Also, for now, fintechs are only filling the digital gaps left by the conventional financial services companies. They will need to mature and integrate with each other and with traditional players in order to build trust with other business partners and the public at large.

Playing the trump card
There is a window of opportunity for traditional institutions to use the broad public trust they already have to ease their transition to the kind of digital offerings that can compete with the fintechs. But, speed and agility are critical – and this is where the cloud comes into its own.

The cloud enables better shared processing, business agility, and rapid scaling – using as-a-service delivery models. It provides the kind of flexibility businesses need to respond faster, more relevantly, and more cost effectively to shifts in the market. It facilitates swift but secure building of collaborative relationships with third parties.

This, in turn, provides the means to build and own a seamless ecosystem that will generate revenue streams capable of replacing those lost in the looming financial services shake up.

The Salesforce Financial Services Cloud, with more than 20 partners contributing to its wealth management ecosystem, is a good example of the way in which best-of-breed partnering consolidates the trust instilled by the originating brand.

Trusting the other players around the table
While there’s urgency, the move to digital doesn’t have to be risky. Digital is inherently collaborative and evolutionary. No single organisation can possibly encompass or deliver all of its potential. So, one of the new skills traditional financial services institutions need to master is the building of synergistic relationships, not only with other financial services organisations but with pure-play technology providers who have appropriate insight into, and experience of, digital transitions.

A study by Skyhigh Networks shows that the average financial services firm already uses over 1,000 cloud services and that the average employee uses 31 separate cloud apps. Progressively, this trend will give rise to financial services institutions trusting managed services providers with their infrastructure, security, network, and mobility requirements.

In essence, digital in the financial services sector amounts to the proactive creation and maintenance of a trust continuum. Technology is the tool, but it’s not the point. Credibility is.
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