FIRST PRINCIPLES CONSULTING

Seven Principles for Reimagining Financial Services

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What is happening? A digital revolution in financial services is happening: Fuelled by the rise of communications, and the adoption of smartphones and the millennial generation. Driven by the rise of financial technology, new user interfaces, a greater ability to share and manage data, the evolution of payment systems, and e-commerce.

Who is doing this? The revolution is creating new actors, delivering new services, which are micro-targeted. Services based not around products, but around use cases, the ability to service one particular need and service it well.

How is it being done? The revolution is being achieved through partnerships, through interoperability and in many cases through an absence of regulations and controls

What is the revolution touching? The digital revolution is touching every aspect of life; and therefore, providing new ways for financial services to be relevant in the lives of people. It is also at risk of creating a new class of underprivileged, the digitally financially excluded – those whose circumstances make it difficult for them to participate in a digital world.

How does re-imagining financial services work?

Think first about your customers

First things first – build from a customer need, two examples illustrate this:

Paying for Pregnancy: A woman, let's call her Susan, becomes pregnant, Susan knows that in a seven-months or so that she will give birth and that she needs to find funds for her pregnancy. Susan doesn't have health insurance, but she is popular and has a large social network, so she turns to her family and friends to support her. Notice Susan is managing an eventuality an insurable risk, but through her own social network.

A traditional approach would be to sell an insurance product, but insurance is difficult for Susan to buy once the insurable event is a certainty, and difficult to sell to Susan when the insurable risk is a probability, especially if health insurance is expensive when cover for her risk is bundled with so many other possible risks.

So, what can a financial institution do? Option A: It tries hard to sell health insurance. This isn't working well, insurance penetration is at 2.43% in Kenya, and even lower in some other parts of Africa. Option B: it reduces coverage to reduce the price. This is possible, not easy but possible especially with more and more data available, it allows people to build their own insurance – trouble here is that people may choose to insure against risks they already know about, so there is a significant risk of moral hazard and hence high claims. Option C: The bank tries to help its customer to manage their situation better. It says someone with no health insurance needs to better manage a known risk. She has a good social network, so how can we help her with a product which uses her social network to fund her pregnancy and the immediate after costs?

Now the bank is beginning to think like its client, rather than being a sales agent for a mass market product. Note this point its important. We'll come back to it.

So, the bank builds in a special purpose savings app, that links into WhatsApp, is funded by mobile money contributions on a monthly basis from Susan's friends and relatives. But should the bank stop there – No. It knows that Susan is pregnant, as indeed are many other customers, so it decides to use the special purpose savings app to add value to Susan. It connects her to health care providers, it enables her to group WhatsApp her friends, it connects her to consumer goods companies selling pre and postnatal care goods.

Church Deposits: A bank wants to attract more in deposits from Churches. It knows that Churches collect significant deposits on a Sunday. But it also knows that many financial institutions are competing for these deposits. Banks already offer a collection service, and will even count deposits. Church goers already have an option of tithing by mobile money. So what is the formula.

GT Bank in Kenya believe they have the answer: It's a product called the Kanisa App. It is an App which enables customers to tithe through mobile money. OK but they can do this already. But it also allows the customer to pay the Church for other items such as sales of bibles and literature, or to contribute to special purpose funds. This is great, but mobile money can do that too – so what is going to provide the stickability the reason for people to have the app and to use it? The answer value added services.

GT wants people to use the app, so GT has built in functionalities which enable congregations to come together in new ways. It allows members to chat with each other, for the church to manage prayer groups, the sharing of videos, the sharing of soft copies of religious literature, and advertisements for church events. GT have built in an online store.

So, GT wanted to be able to attract more deposits – it's done this through providing lifestyle added value services. Financial services are an adjunct to the lifestyle service.

These examples illustrate the first three – customer focused principles, they are:

Principle 1: Respond to real customer needs

The customer's needs are responded to first and are the explicit focus

Principle 2: Provide value added services

The provider offers value added services to sell financial services

Principle 3: Integrate with the lifestyles of your customers

The provider is integrating seamlessly with the lifestyles of their customers' improving services that they are already familiar with.

Learning from Fintech's

Learning from Fintech's gives us the next four principles - Fintech's excel at something small – a particular type of service. We call this a 'use case', for example providing a nano loan, or placing bets, or making a certain type of payment. Fintech's are data driven – using data they reach out to very large numbers of customers sometimes millions of people, but have a very small team supporting the App. This sometimes creates problems, but generally it means very efficient operations. Fintech's are agile – they develop services quickly. They don't always develop them well, but so the argument goes Fintech's learn and we adjust. Financial institutions are generally not as good at product refinement.

Principle 4: Think 'use cases'

Increasingly we need to think of Use Cases: products which can run on our App. This isn't a wild idea – Equity Bank in Kenya has integrated through its subsidiary FinServe to more than 65 Fintech's, in this way it has built a best in class App which has won banking awards year on year. Last year 80% of Equity's transactions were through is App.

Principle 5: Cultivate partnerships

Note Equity Bank partnered with Fintech's where they could add value, this allowed them to build their App quickly and to continue to add value to it.

Principle 6: Incorporate data

We need to incorporate data into our products and services, leverage both what we know, and what others know about our customers. Most financial institutions are very poor at this.

Principle 7: Be agile

We need to adapt and change: To fail to do this, is to become irrelevant to our customers as others who are adapting and changing will take our market.

Seven principles for reimagining financial services.

1. Respond to real customer needs
2. Provide value added services to sell financial services
3. Integrate with the lifestyles of your customers
4. Think 'use cases'
5. Cultivate partnerships
6. Incorporate and use data
7. Be agile

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting

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