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## Beyond Fintech

Disruptive innovation in digital banking

## Background

A 2017 report from Deloitte and the World Economic Forum, "Beyond Fintech: A pragmatic assessment of disruptive potential in financial services," examines disruptive innovation in financial services.

The report identifies **8** key forces impacting all aspects of financial services:

**Cost Commoditization:** Financial institutions will accelerate the commoditization of their cost bases, removing them as points of competition and creating new grounds for differentiation

**Experience Ownership:** Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused

**Data Monetization:** Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time

**Systemically Important Techs:** Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies



**Profit Redistribution:** Technology and new partnerships will enable organizations to bypass traditional value chains, thereby redistributing profit pools

**Platforms Rising:** Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services

**Bionic Workforce:** As the ability of machines to replicate the behaviors of humans continues to evolve, financial institutions will need to manage labor and capital as a single set of capabilities

**Financial Regionalization:** Diverging regulatory priorities and customer needs will lead financial services in different regions of the world down distinct paths

## Trends

<b>Where disruption has occurred</b>	The drive toward platform models of banking threatens to upend traditional bank distribution channels.
	Banks no longer define what customers expect from their banking experience. Instead, financial technology (fintech) and large technology companies set the standard.
	Incumbents are starting to move core systems to the cloud, as legacy infrastructure makes it difficult to meet customer needs.
<b>Where it hasn't</b>	Few customers have moved away from traditional deposit accounts, despite a forceful challenge from up-and-coming online and mobile banks.

## Open questions

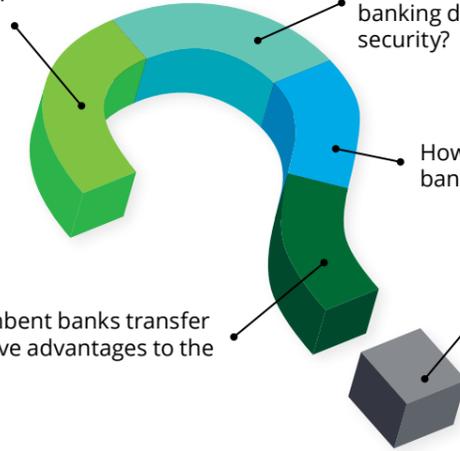
Will PSD2 be a game changer for the industry in Europe?

Will customers stay interested in open banking despite growing issues with cyber security?

How will large tech companies enter the banking arena?

How can incumbent banks transfer their competitive advantages to the digital world?

What partners will banks choose to set out their long-term digital strategy?



## Possible futures

<b>Controlled, curated platforms</b>	As banks focus on cost-cutting, they look to controlled, curated platforms as a more economical way to offer services.	Controlled, curated platforms will give much greater power to the curator, at the expense of customer choice.
<b>Tech aggregation platforms</b>	As fintechs and banks seek partners to improve their value chain, large tech firms start hosting major distribution platforms.	Large techs will expand into financial services, intensifying their customer relationships and testing regulators' efforts to preserve competition.
<b>Open platform world</b>	An open environment increases competition and compels incumbent institutions to focus on the most valuable segments.	The fragmenting value chain will alter power dynamics as customers benefit from greater competition.

## Key takeaways

**Distributors or manufacturers:** The rise of product platforms in digital banking will force market participants to choose between product distribution (i.e. becoming the platform) or product manufacturing. This decision will have far-reaching implications for their businesses and the way they interact with customers, not to mention their competitive landscape.

**Fewer, bigger winners:** The advantage of being the market leader will increase significantly for both product manufacturers and product distributors. Platforms offer customers more purchasing information, which benefits the best products. For distributors, economies of scale in data access and customer awareness will feed a virtuous cycle of growth.

**Ecosystem imperatives:** No matter what, digital banking institutions will forge more relationships with firms inside and outside financial services. This means one partnership will lead to others as digital bankers get better at setting them up.

