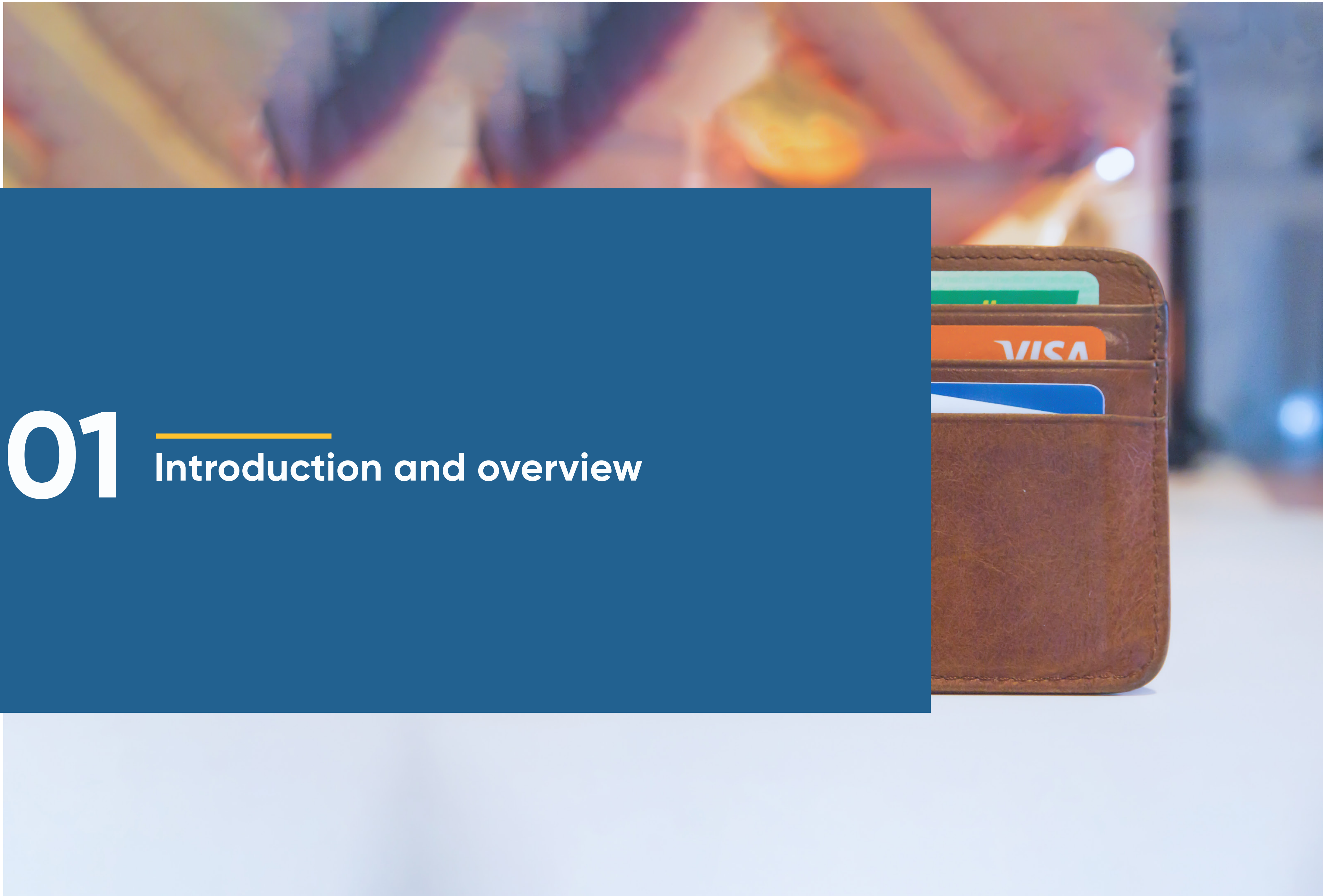
How Product Teams Can Leverage Evolving Trends To Build Innovative (and Competitive) Products In The Finance Industry

Whitepaper



01 Introduction and overview

Introduction:
What makes for an innovative product?

The process of building an innovative product can be full of uncertainty. For businesses trying to develop and bring innovative products into the market, there needs to be an in-built practice of continuously seeking out unique opportunities in the market to create outstanding solutions that meet customers' needs.

Further, for an innovative product to be successful in the market, it needs to be developed with a practical, well-detailed roadmap for execution.The competitive landscape within the financial industry is hard-fought, making it highly consequential for companies who are unable to introduce innovative solutions that meet the markets' needs.

It has also become more prevalent with companies within this industry, not to limit innovative solutions to just products like loan packages or financial product bundles, but also to extend beyond traditional services and channels, hence amplifying the value to their customers, while still meeting their needs in a unique way. As technology evolves, it creates new opportunities that will allow companies within the finance industry create better products that offer them an advantage over their competitors and their bottom line.

In this paper, we look to identify key trends that companies within the financial industry can take advantage of to drive their business growth and customer satisfaction.

Introduction:
The Finance Industry

The Financial industry, over the years, has offered products around their various service offerings namely, Private Banking, Corporate Banking, Retail and Investments. These new products sometimes arise from client demands, internal salesforce or third party influence such as a new CBN regulation, government collaboration or cross-sector collaboration, amongst many others. We also see these products are becoming more and more personalised for individuals, for example, companies like Revolt and Robinhood have revolutionized the ways traditional products have been offered.

Furthermore, considering other factors such as fintech companies who are now introducing new ways the masses can interact with their money, it is important that traditional banks quickly catch up, so they don't get overlooked by their target audience

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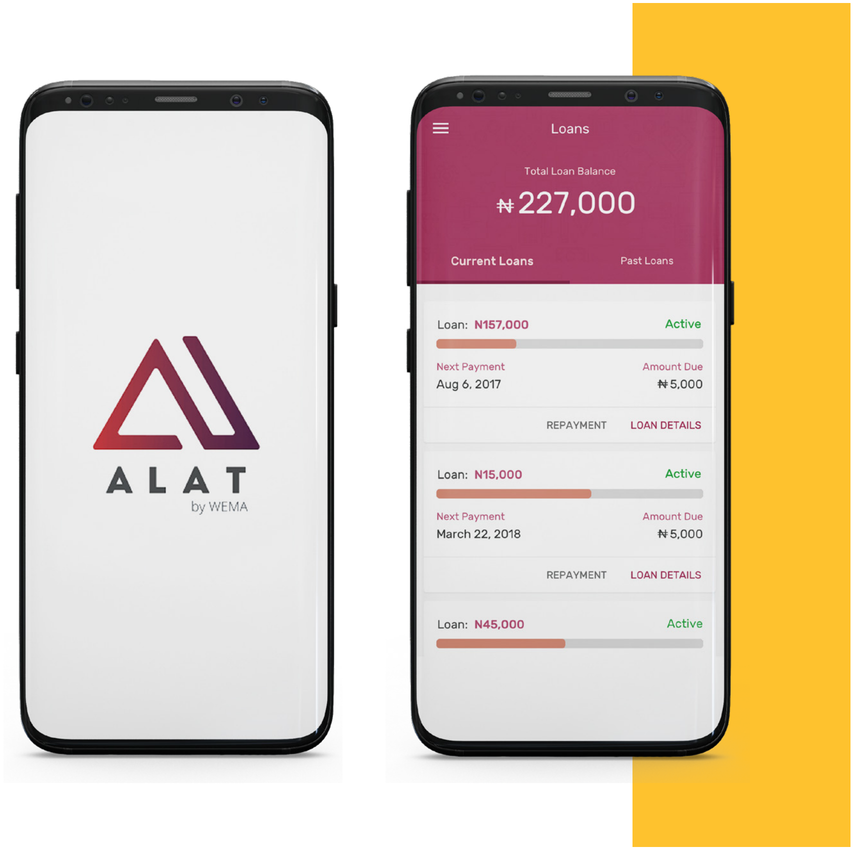
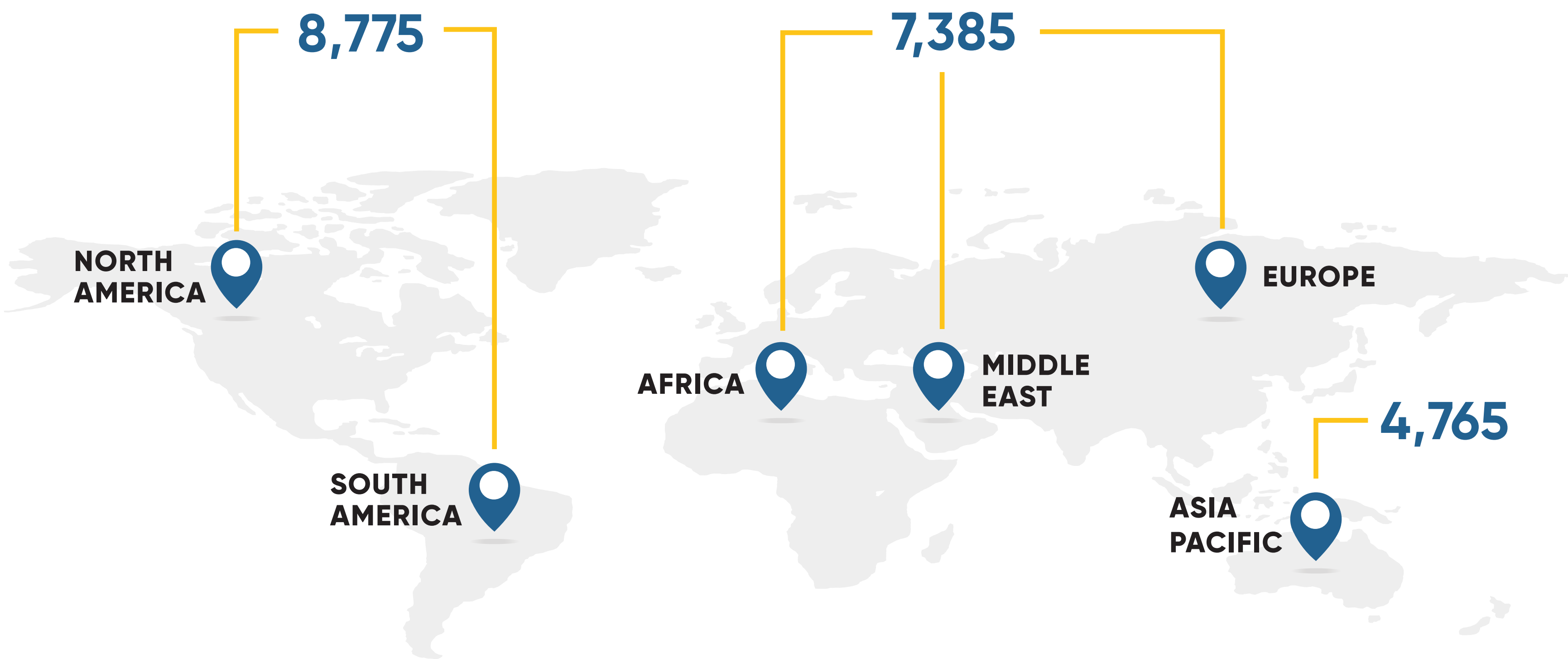


A good example to point will be how Wema Bank introduced Alat which is the first digital bank in Nigeria.

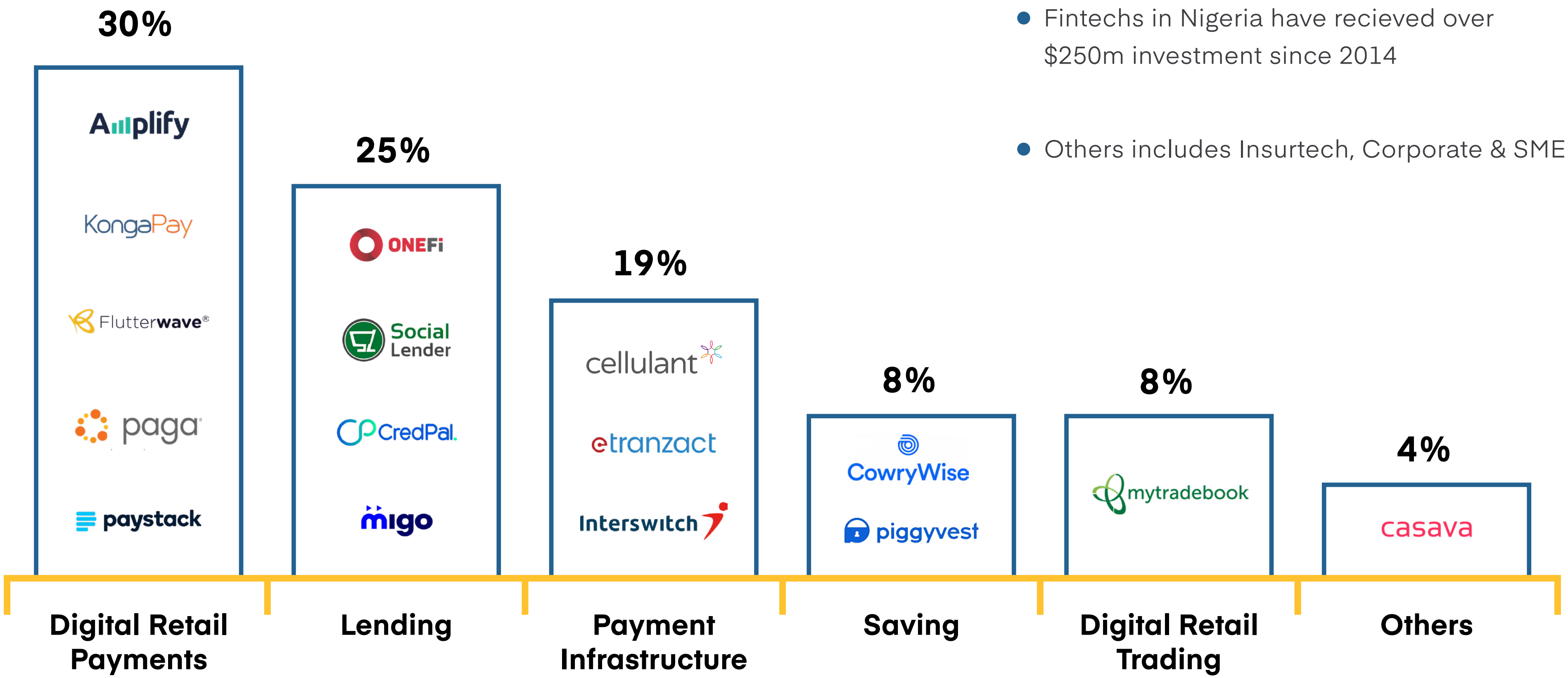
Number of Fintech startups worldwide 2020, by region



There were **8,775 financial technology (Fintech) startups in the Americans** in February 2020, making it the region with the most Fintech startups globally. In comparison, there were **7,385 such startups in Europe, the Middle East, and Africa**, followed by **4,765 in the Asia Pacific region**.

FinTechs in Nigeria broken down into clusters

- Nigeria is currently home to 210 - 250 FinTech companies. 60% address payments and lending clusters
- Fintechs in Nigeria have recieved over $250m investment since 2014
- Others includes Insurtech, Corporate & SME



02 Current setbacks in the finance industry

Current setbacks in the finance industry

The finance industry as a whole, especially the incumbents, face key challenges, some are caused by external forces, while most are shaped by trends. These challenges will require constant adoption of new technologies, observing consumer patterns and in-depth customer insights to stay afloat. Accepting these challenges as facts that require urgent attention can help inform the industry with insights and solutions needed to delight customers with new offerings. Here are some of the setbacks the finance industry face.

There was also the entry of counterfeit mobile banking apps that were built identical to the originals. PWC stated that Cybercrime is not a simple question of networking. It involves a spike in crime arising from internal entities such as insider trading, fraud and cyber vandalism. And it's not just within in-house staff. Once businesses decide to use contractors and temporary staff, "they can turn over more than just a security badge".

Cyber-Security:

With the increase of digital finance tools and channels comes the challenge of cyber attacks on banks, this is of course due to the fact that building digital financial products is not without the risk of identity theft, brute force cyberattacks and tech-driven fraud. While banks are going digital, managing customers' identity and vital information becomes paramount. With banks and financial bodies now operating from the cloud and hackers breaking through virtual private networks, building products for customers via technology has become a cautionary act. SMS banking, for instance, saw the rise of fake shortcodes from hackers that steal vital information from users.

Current setbacks in the finance industry

Disruption of Traditional Banking by the rise of digital channels and fintechs:

As demonstrated by the Marcus retail banking arm of Goldman Sachs or N26, a German mobile bank, the digital channels are rapidly driving growth in deposits, consumer lending and other areas as well. It's also not shocking that digital lending is where non-banks are taking a share from incumbents. This has created a major disruption in traditional banking that sees venture capital firms massively tilting to fund new fintechs, leaving the incumbent banks fighting tooth and nail to retain their customers.

Traditional banking is also giving way to self-service and digital channels around the world. Fintechs are dominant players in retail banking in Asia and in Africa, and are quickly closing in on incumbents. Fintechs are also making strides in Europe targeting global expansion. All in all, fintechs race to serve consumers around the world has no doubt posed a challenge to incumbent banks globally.

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Current setbacks in the finance industry

Lack of an understanding of the customer:

Another big challenge for banks is the lack of 20/20 vision and clarity of customer habits. Many times, this leads to bringing solutions to the market that either are too similar to competing brands (this is mainly derived from lack of in-depth study and grasping of true market needs), or products that simply don't satisfy the market. Non-traditional entrants to the playing field and advancements in technology are being used to understand customers more, are challenging the business models of the banks, the impact to the financial industry that these factors bring make change inevitable.

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Moving customers from satisfied to loyal:

Affluent banking and credit union customers, for instance, generally insist on premium service and tailored, expert advice. This is proving challenging for banks. Developing products that win the loyalty of this group is becoming a tough puzzle. While banks engage in omni-channel adverts, they still rely on loyal customer recommendations. Today, a chief problem is building financial products to cater for ever changing customer needs.

Limiting policies:

In trying to 'play by the rules' of regulators, financial institutions are operating only as far as policies allow them. Sure, many have found creative ways to still meet the needs of today's ever-changing customers, however, regulations, some dec-ades-long, still impose restrictions. This leads to high volume, broadly similar products screaming at customers in the market, without any in-depth unique differentiation.

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Current setbacks in the finance industry

External funding and oil market instability:
Banks, especially Nigerian banks face additional liquidity risks because of the dual-currency nature of their balance sheets and high net external debt. This could cause potential pressure on their U.S.-dollar liquidity when foreign currency reserves are affected due to declining oil prices. Additional capital requirements to offset the impact of the 2017 naira devaluation is affecting smaller banks in large part. We expect top-tier banks to continue maintaining their Tier 1 ratio at an average pace of about 18 percent. This spurs some more consolidation among small banks as it becomes central to scaling business. The 1 percent capital charge is also likely to be reintroduced for systemically significant domestic banks.

Lack of personalization in banking solutions:
Customers expect a tailor-made response to their needs in general and their financial needs are no exception, just as they expect their order to be attended to at their favorite ice-cream or cake shop, with option s seemingly made just for them, they also expect to get services and responses tailor-made just for them. A survey by Accenture Global Market Pulse Research found that while 48 percent of customers expect personalized care, 33 percent of those who stopped from patronizing a business did so because there was a lack of personalisation. A significant opportunity is missing for many financial companies to discover what consumers actually need and would appreciate, and to personalize solutions for those needs.

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Omni-Channel Customer:
As consumers visit bank branches less, their demand for a consistent omni-channel experience (i.e.consistency in the delivery of services and experiences delivered to them), is increasing, this is a factor traditional brick-and- mortars have been grappling with for many years now. The consistency of a customer's experience matters more than ever to them today, the omni-channel customer wants to have their requests answered to immediately, on any channel, without any obstructions to their journey, and they demand for this to be consistent, or they walk right into the arms of another financial entity without hesitating.

03 Trends that the finance industry can leverage on to build better products

Trends that the Industry can leverage on to build better products

The finance industry has faced many changes in the past, from changes in government policies to technological advancements and customer behaviour change. This has had an impact on how the financial industry offers its services to its customers over the years. As we enter into yet another decade, there are trends that are sure to spark changes in how services are offered in the industry. We discuss them below:

The Increase in Demand for AI:

Artificial intelligence is fast becoming an integral part of the financial industry, no doubt owing majorly to the amount of data these companies own and operate. Increase in the demand for understanding the consumer data and drawing pertinent patterns from it has led to the growth in demand of A.I.

AI processes are much more efficient in identifying data patterns than humans, this is beneficial for finance companies as they strive to understand their target audience and gain insights from their activities. A.I is at its best when it comes to detecting protection and fraud. A.I can be used to monitor spending habits on various transaction instruments to point out suspicious activities, such as a card being used in a location only a few hours after it was in a distant location elsewhere.

UBA in Nigeria built Leo, an A.I powered chat banking app (chatbot) that has reduced the ask on customer service tasks. Several other banks have followed suit, developing their own tailored chatbots for banking transactions.

Trends that the Industry can leverage on to build better products

Continuous Rise of Open Banking and Asynchronous Data Sharing:

Open banking- the sharing of customer data between banks and other external parties upon a customer's request, is budding. While still in the early stages of its evolution, it is most evident in Australia, the United Kingdom, and other countries in the European Union. Africa and more specifically Nigeria, have followed this trend. An example is the BVN introduced in Nigeria a few years back. Banks have to consider cross channel digital connections with other counterparts to benefit in the ecosystem. The era of existing in isolation is quickly phasing out. This trend is informing how products will be built in the industry moving forward.

Banking as a service:

More and more as customer behaviour and technological advancements impact the industry, there is a mounting pressure on the traditional banks to innovate quickly and cost effectively.

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A great entity to explore, in this quest, would be more cloud based innovative products.The cloud allows for customers to engage with your offering from anywhere and at any time, allowing your customers to enjoy your offering as they choose. Seeing that major companies such as Visa and Mastercard, have been able to leverage the cloud for business success, and owing to the fact that cloud-based technology reduces cost, while also improving on scalability, flexibility and efficiency for adopters, exploring this option as a means to serve customers and improve efficiency of processes, will benefit all who leverage on it.

Already 81% of Banking CEO's are concerned by the present speed at which technology is headed

Trends that the Industry can leverage on to build better products

The use of Blockchain:

Since the blockchain became mainstream, it has had an impact on the way transactions are done all over the world. Blockchain which is a decentralised digital ledger, is built such that it guarantees security of transactions. Although a large percentage of business leaders in the financial industry are still unsure of how to leverage the trend, in addition, this technology is not regulated or even accepted by CBN. This would make it illegal for companies in the financial sector to use. Companies not able to use it, doesn't negate the Blockchain's relevance to transactions and finance as a whole. For companies who are able to adopt the blockchain (or when the time comes when it is accepted by the government), they will enjoy immense cost benefits, such as savings from making zero payments to intermediaries.

This cost isn't required when using the blockchain ledger, as everyone involved is required to confirm authenticity simultaneously. With all this said, there are also risks to consider within the Blockchain ecosystem, there is the possibility of individuals within a network to collaborate to commit a transaction fraud.

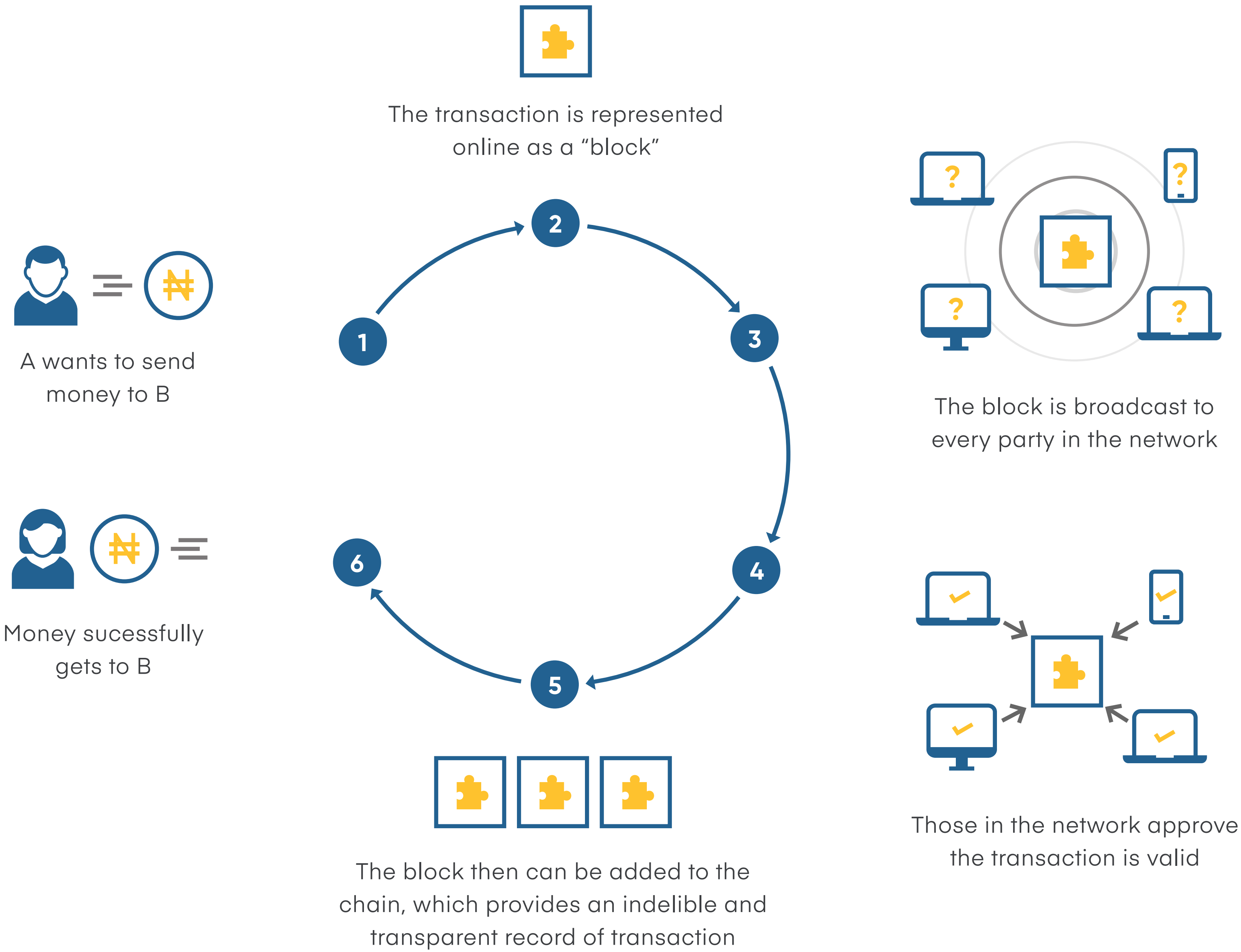
Nonetheless, these are areas that could be planned and tested to make sure they are set up and secure for your company's specific use.

Digital wallets are becoming mainstream:

Digital wallets are fast becoming the norm within the financial industry. Companies had initially introduced this digital wallet as an add-on to their already existing services, but as people became more familiar with digital services and began to rely on their phones to carry out their daily transactions, it started to become mainstream. This growing behaviour will only shift the digital wallets from being a side feature to a main feature used to carry out business transactions. This is also a feature that other industries aside the financial industry are already exploring.

Telecommunications companies like MTN and phone manufacturing companies like Samsung and Apple develop their own digital wallets to be used by their customers. With digital being a huge part of the future, it is important that financial companies who want to remain relevant to their customers, be able to provide services that align with this growing trend.

A break down of how a blockchain works



Trends that the Industry can leverage on to build better products

Understanding the customer:

Data analysis and Design Research has become something major financial houses have been recently exploring. Also, data can give amazing insights into customers' behaviour pointing you to areas where your companys can best serve them based on data gathered. It is very important that companies become cognisant of their customers' needs, seeing that technology has propelled the running of other alternatives which seek to deliver financial services to customers in ways that seem less complex and affordable.

It doesn't just end there though, as new concepts such as data-driven design, Data-informed design and data-aware design are now being leveraged to better understand customers' needs. These areas were recently highlighted by Towards Data Science TDS which was published on Medium. The team at TDS shared practical insights into how the design process combined with data science provides a unique solution formed using data and creativity. The design process has been a valuable approach used by global companies including financial servicing companies like Bank of America, Citibank and more.

It has been discovered that the use of Design Research which is a Research approach stemming from design, seeks to find and understand emotional drivers of customers which data science might not be able to pick up on. However, various reports have shown that by combining these two processes (data and design) financial institutions are sure to get quality results backed by large quantities of data sets.Banks and fintechs can leverage this trend by creating products that focus on easy sharing with other banks and payment services. This further aligns with customers' love for convenience.

04 Conclusion

Conclusion

There are many more trends that companies within the financial industry can explore in bringing winning solutions to the market.

This whitepaper was written to help professionals within the financial industry explore these trends and opportunities to drive growth, improve on their customer experiences, and increase total returns to shareholders.

At a time when it matters more than ever who is able to satisfy customers' needs, it is very important that companies develop innovative products that satisfy the customers.

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As a side note: We at DODO have developed and curated tools you can use to help you unlock the power of creative problem solving within your company. You can use these tools as a guide during your internal creative processes to improve on customer offerings and to internal processes within teams and departments. To download these free tools go to **tools.dodo.ng**

A collection of design and innovation tools created to help product & strategy teams with product innovation, business model innovation and customer experience.

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