www.pwc.com/ng

Advisory Outlook

pwc

Ten Technology game changers for Financial services (FS).

Adebayo Adewolu

Olalekan Adejayan

It is clear that technology is affecting financial services in a multitude of ways. Many executives in Nigeria look to their IT organisations to improve efficiency and facilitate game-changing innovation – while somehow also lowering costs and continuing to support legacy systems. Meanwhile, FinTech start-ups are encroaching upon established markets, leading with customer friendly solutions developed from the ground up and unencumbered by legacy systems. Nigeria has experienced (and will continue to experience) a demographic shift and the customers have had their expectations set by other industries; they are now demanding better services, seamless experiences regardless of channel, and more value for their money.

We believe there are technology themes that will change the financial services industry in Nigeria over the coming years. These themes are discussed below;

1. *Fintech is the new business model…you must embrace it or become irrelevant.*

The financial services industry faces a notable challenge that it can no longer attempt to downplay — one that can be summed up in a single word: FinTech. FinTech is becoming mainstream in Nigeria, rapidly and voraciously. Fintech companies deliver highly focused financial-services applications, often more effectively and less expensively than traditional companies. Some FinTech organisations in Nigeria have been attracting customers in large numbers. And incumbent financial-services firms have had no choice but to take notice.

These FinTech companies offer a better customer experience and greater convenience at a much lower price. Despite regulation and other potential barriers to entry, we envisage a tremendous demand for FinTech-related services in areas such as consumer banking and micro wealth management.

A bold response to the FinTech disruption would be to create a FinTech ecosystem, with financial services firms partnering with third party organisations (FinTech companies, Telecommunication companies, Software Developers, Digital agencies etc.) to develop innovative and differentiated services. This will enable institutions to continuously innovate towards creating the right product and service offerings for customers.

2. *The sharing economy will be embedded into every part of the financial system*

By 2020, consumers will need banking services, but they may not turn to a bank to get them. Or, at least, maybe not what we think of as a bank today. The so-called sharing economy may have started with cars, taxis, and hotel rooms, but financial services will follow soon enough. In this case, the sharing economy refers to decentralised asset ownership and using information technology to find efficient matches between providers and users of capital, rather than automatically turning to a bank as an intermediary.

Nigerians have been exposed to the sharing economy through experiences including ride sharing (Uber, Taxify etc) and peer-to-peer lending (Fint, Social Lender etc), and would in the future, seek such experience across other industries including financial services.

Financial institutions in Nigeria should seriously consider taking advantage of sharing economy opportunities such as partnerships with digital intermediaries or even end users with an eye towards how they might deliver services at much lower costs.

3. *Blockchain will be very important.*

The blockchain 'public ledger' will go on to become an integral part of financial institutions' technology and operational infrastructure. Blockchain systems could be far cheaper than existing platforms because they remove an entire layer of overhead dedicated to confirming authenticity. The sheer range of applications (settlements and clearing, KYC, AML, trade finance etc.) has attracted FinTech providers and legacy firms all over the world who hope to develop solutions both narrow and broad. Some Nigerian companies are currently leveraging the platform to conceptualise and develop customer offerings. One of which is a blockchain-based system used by over 200 Microfinance institutions in Nigeria especially in the rural areas, to facilitate instant money transfers.

This is currently a very fast paced area and as expected, regulators and FS stakeholders in Nigeria are currently reviewing the concept and impact of blockchain, including merits and risks involved with adopting the technology. It is not a question of 'if' but 'when'.

4. *Digital is mainstream.*

The evolution digital is changing the landscape of customers and expectations, as customers are "always on" and are expecting a "connected experience" across all channels. Financial institutions want greater control over alternative channels; they want to manage the security, user experience, and customer connectivity at the point of purchase. This has led financial organisations all over the world to leverage digital technologies (Mobile, Social Media, Cloud and Analytics) to discover disruptive and innovative ways of doing business in the digital age.

A number of FS institutions in Nigeria understand this changing landscape of customers and expectations and have developed digital strategies that will enable them to respond adequately to customer needs. Some have begun implementing digital initiatives to capture the heart of customers and give them an edge over their competitors.
FS institutions need to develop business strategies that are fit for the digital age. They need to transform to digital organisations that utilise digital trends such as Social media, Mobile, Analytics and Cloud to dynamically create solutions to enhance customer experience.

5. *"Customer intelligence" becomes the most important determination of revenue growth and profitability*

Customers are learning more about the value of their personal data. FS institutions all over the world are also leveraging customer data to develop deep understanding about customer behavior and needs. We expect to see customers tendering out their information to banks, insurers and asset managers in return for the best deal. The data is everywhere, and over the next five years, hyper-connectivity will give financial institutions the opportunity to use it. It will not only be computers and smart devices that record and communicate data, but everything from cars to wearable devices.

Some players in the Nigerian FS industry are already adopting data-driven systems, leveraging big data and analytics tools to aggregate, analyse, manipulate and combine data to generate insight that will enable growth and effective operations.

6. *The cloud becomes the dominant infrastructure model*

FS institutions are leaning towards adoption of a private-cloud solution as a sensible way to deliver innovation and provide scalable services within a target return on equity. In recent times, there has been a proliferation of cloud service providers in Nigeria, some of which have standard ('Tier 3') datacenters that are capable of helping business host their infrastructure. In the future, FS executives will benefit from applying cloud based solutions for core service infrastructures in areas such as consumer payments, risk management, and statements and billings.

As the risks around of these cloud infrastructure models become more predictable and thus manageable, we expect its adoption to become more mainstream.

7. *Cyber will be the #1 risk facing financial institutions*

Cybercriminals are stepping up their efforts with more frequent and severe attacks as the world becomes increasingly digital. Organisations saw a 38% increase in detected security incidents, according to PwC's The Global State of Information Security Survey 2016. As a result, business leaders across the globe are rethinking their cybersecurity programs. One challenge will be how to balance safety of digital channels with customer convenience.

FS institutions in Nigeria should pay attention to the cybersecurity. In this age, Cyber security risk has become a board level item. Collaboration with other stakeholders to leverage industry-wide big data and analytics as a means to generate threat intelligence, enhance incident monitoring and strengthen cybersecurity is critical.

8. *Regulators will increasingly use technology to embed supervision into day-to-day operations*

Regulators across the world are rapidly adopting a wide range of data gathering and analytical tools (e.g., KYC/AML) either on an ongoing basis or during supervisory reviews. Regulators are leveraging these tools to learn more about individual institutions' activities and overall systemic activity. They also hope to monitor the industry more effectively and to predict and address potential problems before they become full-scale market problems.

The response from FS should be to make data and control transparency priorities. As they implement tools relating to data and control transparency, they should develop a better understanding of where their data and associated controls live.

9. *Advances in robotics and Artificial Intelligence will start a wave of "re-shoring" and localisation*

When ATMs were first introduced in Nigeria, many customers refused to use them. Gradually though, after time and training, they came to see that ATMs could offer a better service experience, and trust followed. Now, Nigerians across different demographics have gotten comfortable with its use. ATMs are robots. They are very simplistic, purpose-built robots – but they provide consistent, convenient, low-cost service and customers have grown to trust them.

The same principles will apply to other, more sophisticated FS offerings. There has been astonishing advances globally in robotics and AI, machine learning and pattern recognition in recent years. Over the next five years, we envisage a shift from standalone uses to full integration into a company's business-as-usual activities.

We urge financial institutions in Nigeria to rapidly ramp up their efforts to understand and develop a vision for their use of robotics and AI. They will need to find and integrate more industrial engineers and software developers into their talent plan. FS players will need to learn from industries such as manufacturing and technology that have used robots extensively for decades.

10. *Asia and Africa will emerge as a key centre of technology-driven innovation*

Asia has now become the global leader in research and development across all industries, including financial services. Asia offers some key advantages to Western-based companies looking for innovation, including lower-cost but highly skilled resources (arguably on a level with those in the West), and a large market for testing and launching new products and services.

While we believe Asia will emerge as a key centre of technology-driven innovation, we also envisage that Africa will not be too far, in terms of innovation across industries. Nigeria already has an increasingly developing ecosystem of technology innovators who are using technology to create impact-purpose products and services. Nigeria, like most countries in Asia, has the same wealth constraints, vast population and increasingly dynamic regulatory environment that represents an ideal fertile ground for disruptive innovation.

Nigerian FS institutions should look to create fully functional hubs that can act as a catalyst for technology innovations, for both local and global deployment.

Priorities of the future.

We see six priorities for success for 2020 and beyond, based on our research and our experience in the field. Players in the Nigerian FS industry should explore the following;

- Update IT operating model to get ready for the 'new normal' (The FS technology game changers will drive the 'new normal')
- Slash costs by simplifying legacy systems, taking SaaS beyond the cloud and adopting robotics/AI.
- Build technology capabilities to get more intelligent about your customers' needs
- Prepare architecture to connect to anything, anywhere
- Pay more attention to cyber-security before it becomes urgent
- Make sure you have access to the talent and skills necessary to execute and win

Adebayo Adewolu is a Senior Manager with the Advisory Technology Practice, PwC Nigeria.
bayo.adewolu@pwc.com

Olalekan Adejayan is a consultant with the Advisory Technology Practice, PwC Nigeria.
olalekan.adejayan@pwc.com