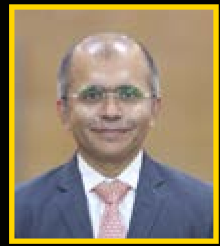
# Shifting growth gears

## Pacing for the new wave in banking

**November 2022**

Building a better working world

# FOREWORD



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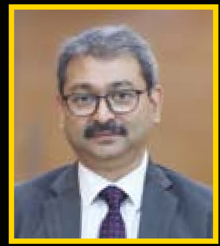

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India is expected to be the third largest consumer economy by 2030, with ~60% of the population being Gen Z and millennials. It is essential to understand and cater to their needs to stay relevant in the market. With increased smartphone users, internet penetration and covid induced circumstances, there is an increased digital push in the economy.

Ernst & Young India, in its 'Banking transformation for new generation consumer survey' underlines the extent of the market dynamics and proposes how financial institutions can respond. We surveyed Indian consumers across all regions and age groups. The survey was designed using a conjoint framework with a high degree of precision and granularity, much in-line with the EY NextWave Global Consumer Banking Survey.

The research yielded both geographical and generational data points on the impacts of COVID-19 on financial services needs and the likelihood of changes in consumer behavior. Further, it identifies the evidently dominant need of personalization.

Quite prominent globally and pacing faster in India, GenZ and millennials have demonstrated a much more adaptable approach to disruption. Therefore, there is a need for banks and wider financial services players to redevise their strategy to evaluate what more can be offered to engage the customers well. While most of the traditional banks are offering digital services and governmental push has elevated the count of cashless payments, virtual-only banks are gaining ground at the back of customer's expectations of convenient and simpler banking experience.

Besides, the wider uptake of digital platforms has enabled financial services players access to a plethora of data. Digital technologies, such as UPI, JAM etc., have made the consumers more open and comfortable in sharing their data. Consumers see personalized products as a trade-off for data sharing. Neobanks and Fintech companies have been faster in understanding and capitalizing on this behavior and hence stand in the position of pride as unrivaled players in the domain. They distinguish themselves by providing an improved experience, better onboarding journeys, and superior ecosystems.

Trust still plays a vital role in this battlefield. Indian consumers still put in a lot of faith in traditional banks, but they also need personalized products for their products. Super apps, ecosystems, Metaverse are a few trends that are making consumers more interested in their banking partners. Hence, there is a growing need for banks to evaluate how to address the evolving need of the consumers and maintain their dominant position of consumer trust.

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# 1

# Overview

## Evolving needs of next gen consumer


Globally, generation Z has experienced a tremendous change in their brief lifetimes. Politically, socially, technologically, and economically, the world has evolved at warp speed, making this generation risk averse, informed, and carrying huge expectations.

Gen Z rates convenience higher in their overall banking and shopping experience. While paying monthly bills, they want everything one click away. They want to pay EMIs, credit card bills, electricity bills, groceries, etc., in one app and on the same screen.

*This generation has grown up in a digital age and relies upon banking from their phones.*

Their demands, coupled with the exponential growth of digitization and technology in the sector, have contributed significantly to the evolving opportunities for new players in the banking and financial services industry. Consumers' inclination toward online banking services for easy access and seamless integration has led to a growing interest in super apps, and FinTech and big tech platforms for essential financial services.

In India, the growth and disruption of FinTech market is backed by several macroeconomic factors, such as economic growth with rising disposable income, large unserved population, regulatory initiatives, improved internet and smartphone penetration, and a fast-growing e-commerce marketplace.

Further, the popularity of neo-banks has led to leaders and boards across the banking sector to strategize to impactfully serve the rising consumer expectations. It is interesting to note that despite the massive disruption and rise of the new ways of banking, traditional banks still lead to maintaining primary financial relationships (PFRs) with consumers. Accordingly, this demonstrates that while there is still opportunity to counter the competitive threats, rising to be early adopters and acting with urgency may help traditional banks protect their advantages, which are under direct attack by these fresh players.

## A dipstick to get the consumer pulse

EY India's research findings explicitly represent how this shift in banking preference is leaning toward the territory where FinTech and neo-banks have competitive advantages. They also disclose a generational shift in consumer expectations of trust and a robust inclination towards seamless integration among various services and providers. Lastly, the survey results authenticate a preference towards better personalization capabilities and ecosystem business models, which are essential for banks to maintain their customer relationships and to enhance their capabilities.

*EY India's Banking Transformation for New Generation Consumer survey highlights the extent of these market shifts and suggests how financial institutions can respond.*

**~44%** of Indian consumers transact with digital banks/ neobanks/fintechs

Of those, **60%** are 25- to 34-year-old, comprising Gen Z and millennials

PFR's physical presence, seamless integration and personal relationships drive the consumer's trust

**~93%** respondents are interested in super apps and feel a greater need for personalization

1.1

## Convenience, cashback and rewards drive the GenZ

The next decade will be shaped by the maturation of GenZ, the largest generational cohort in history.

- Gen Z (10- 24 years)
- Millennial (25- 39 years)
- Gen X (40- 54 years)
- New Gen (Up to 9 years)
- Boomer (55-74 years)
- Silent (75+ years)

Source: EY Megatrends report, 2020

Gen Z is expected to influence the businesses across industries. They comprise of **1.8b people making up 24% of the global population by 2030**[1]. This generational shift is observed both within and among countries:

- Leading economies are growing elderly, while developing-market societies are youthful. Gen Z comprises 27% of India's population[2]
- Differences in social imperatives between youthful countries and aging countries will play out in economic, trade and foreign policies.

Similar to how millennials drove business transformation to adapt to sustainability and going digital, Gen Z is expected to fuel disruption and drive yet another transformation of the financial services industry. It is imperative for the incumbent banks to keep up pace with the changing expectations. They must understand how different life experiences shape the outlook and attitudes of this diverse generation:

- Developing-market Gen Zers are optimistic, having experienced rapid growth and increasing consumption.
- They are socially more conservative, trust more in business and feel pressured to succeed than developed-market peers.

While the desire for digital access plays a vital role for GenZ, key trends of the GenZ cohort are as below:

More than **63%** feel comfortable managing their finances using a virtual assistant

**45%** are willing to share data for rewards

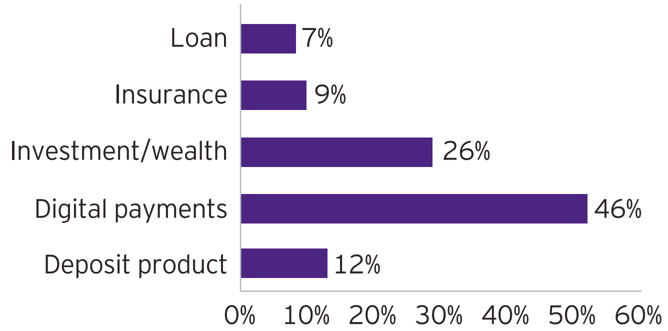
**17%** use comparison site for choosing a product

This has led to a paradigm shift and has made Neobank and Fintechs popular as they offer seamless banking among this generation that relies majorly on smartphones and digital mediums for their financial interactions and transactions.

As we investigate customer segments, we see that it's not just the millennials or Gen Z that are being attracted to the Neobanks, but every tech savvy professional, including Gen X streamlined to the concept.

In India, ~50% of the consumers of Neobanks use them for digital payments, followed by Investment/wealth products[3].

Neobank products used by consumers




Source: EY India's Banking transformation for new generation consumer survey for India

Banks have leveraged deposits and other core products to build a premise for customer relationships and the foundation for increasing their share of the wallet. Similarly, payments are the base for neo-banks' relationships with consumers. Nevertheless, as their average customer tenure increases, neo-banks will diversify into high-value products like loans and investments.


[1]EY Megatrends report 2020
[2]EY Megatrends report 2020

[3]EY India's Banking transformation for new generation consumer survey

## Neo-banks: taking the world by storm

By providing seamless integration and easy access, neo-banks bridge the gap between the services that traditional banks offer and the evolving expectations of customers in the digital age. Neo-banks engage customers through:

**Ease of transactions using an app**

Following a mobile-first model, neo-banks leverage the latest technologies like AI, cloud computing and automation, to offer innovative solutions, quick turnaround times and DIY on boarding with better customer service.

**Rewards and cashbacks**

Neo-banks stimulate engagements by providing rewards and cashback to make their products more lucrative. This has led to customer stickiness.

**Offers with ecommerce partners**

Neo-banks partner with leading ecommerce partners to provide deep discounts with their transactions, luring the Gen Z customers for stickiness.

They are changing the face of FinTech and could one day eclipse traditional banks. A good deal of consumers might confuse neo-banks with digital banks. Both are similar in that they offer banking services through smartphones and other devices. But that is where the similarities end.

Globally, neo-banks are digital banks without necessarily having physical "brick and mortar" branches, offering services that traditional banks do not, or are unable to do so efficiently, along with customization or "à la carte finance" model. They leverage technology and artificial intelligence to offer customized services to customers while minimizing operational costs[4].

There are three neo-banking models:

- Neo-banks that have full or restricted virtual banking licenses that regulate them
- Digital-only direct offerings of traditional banks to counter emerging virtual banks and tap into digital adoption
- Neo-banks that do not have virtual -banking or e-money license and operate in partnership with traditional banks in the country

In India, the current regulatory landscape allows only a partnership route for neo-banks. Notably, some banks have built API stacks to capitalize on this partnership opportunity.

The neo-banking players (established/ in-process of establishing) in India can be grouped into two major categories based on their target segments:

**Retail customers offering:**

- Products for underserved or 'New to Banking' (NTB) segment
- Providing better and differentiated experience to customers who are already banked

**MSME and gig-economy segments offering:**

- Products to serve the business needs of small businesses

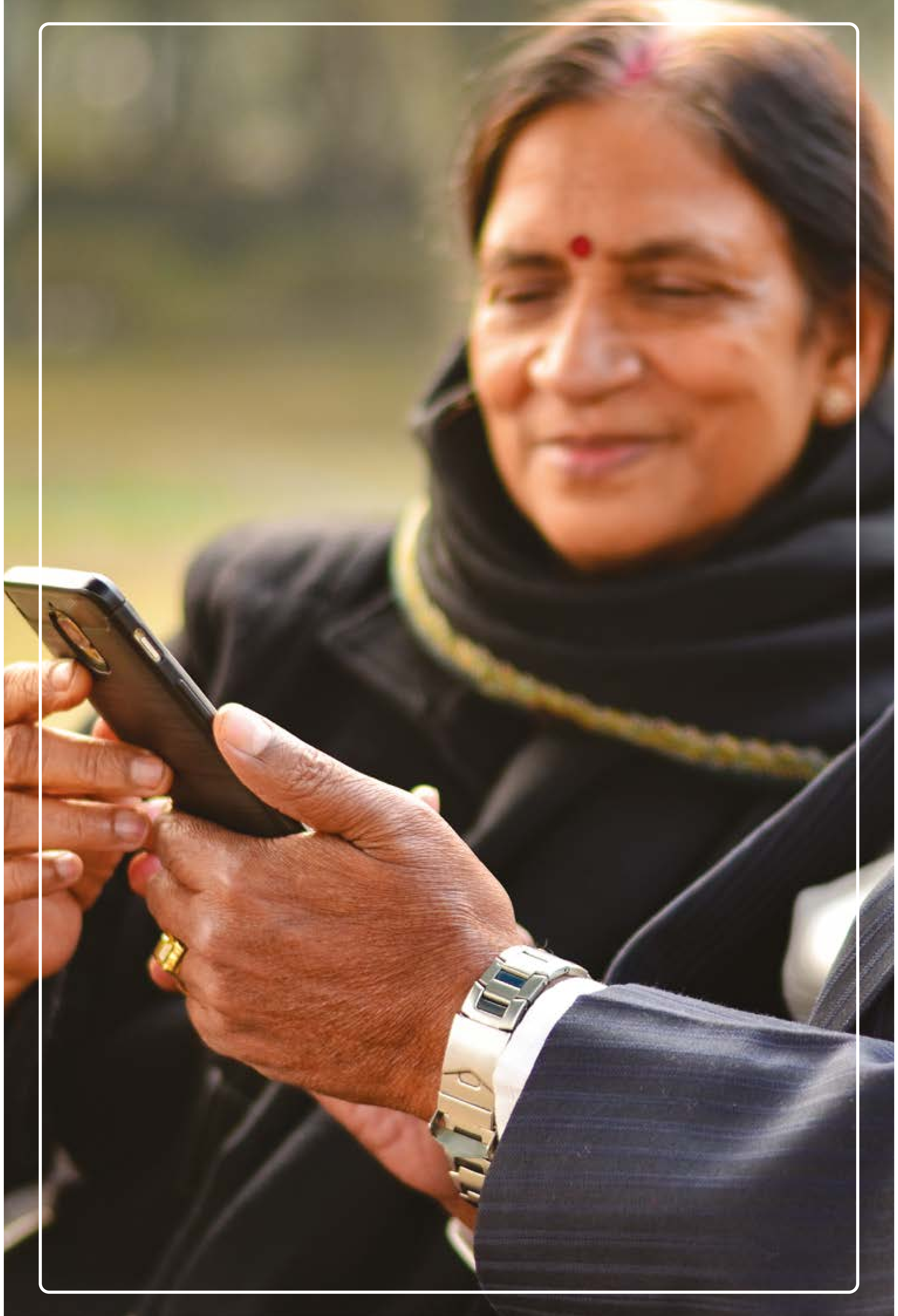
### *Key takeaways*

- Gen Z and the millennials will comprise most of the population in the next decade. Banks need to revisit their business models further to cater to the evolving needs.
- Ease of transactions, rewards, cashback and offers with ecommerce partners are driving the growth of neo-banks in the country.

[4]https://economictimes.indiatimes.com/tech/trendspotting/explained-neo-banks-the-next-evolution-of-banking/articleshow/86836735.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

# 2

# Staying relevant through customer centricity in the era of Neobanking



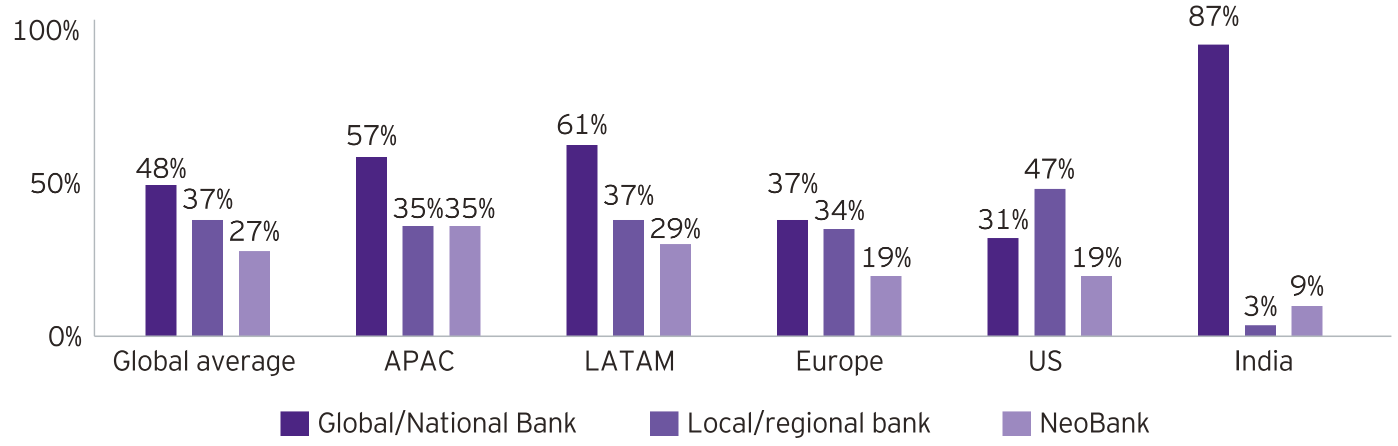
**Traditional banks still enjoy some benefits of being consumer's financial focal point.**

However, preferences are evolving, especially among Gen Z, who favor a customized approach to managing their finances. Strong competition amongst FinTech companies and higher reliance on mobile offerings leads to progress in how consumers handle their money[5].

Being someone's primary financial institution continues to be significant in the banking industry. For all except the largest banks, however, remaining a consumer's primary provider has already become difficult and will probably become even harder. The lengthening tenure of neo-banks' customer relationships, consumer's willingness to maintain multiple relationships is a clear competitive threat to traditional banks, that now must compete on multiple fronts, including both products and experiences.

*Consumers still have an inclination toward opting banks as their PFRs. But neo-banks have a tighter hold across generations. Their popularity is on a rise, driven by evolving preferences*

Consumers' financial relationships, by type of bank and region



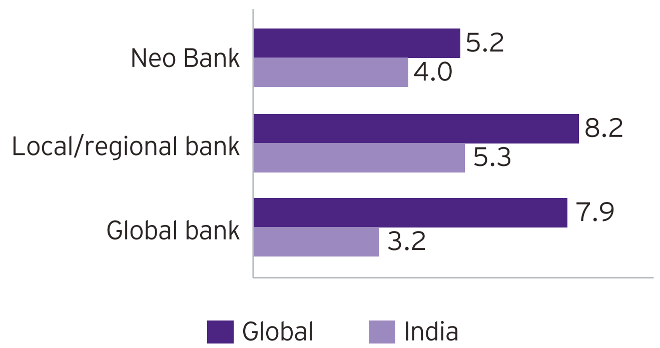

Source: Banking transformation for new generation consumer survey for India, EY 2021 NextWave Global Consumer Banking Survey, EY India 2022

As per EY NextWave Global Consumer Banking Survey, among all global consumers, 27% have relationships with neo-banks, with the highest rates of adoption in the Asia-Pacific region and Latin America. In India, the adoption rate of neo-banks stands at 9%.

As per the survey conducted by EY India, consumers that choose global and national banks for their PFRs maintain an average of 3.2 relationships (respectively) with their financial service providers. Consumers whose PFRs are with neo-banks have an average of 4.0 relationships in India[6] in comparison to 5.2 globally.

With the growing customer relationships and tenure with FinTech companies, consumer's willingness to maintain multiple relationships is a clear competitive threat to traditional banks giving them reasons to ponder over enhancing capabilities on multiple fronts, including both products and experiences.

Average relationship of consumers with their financial services provider



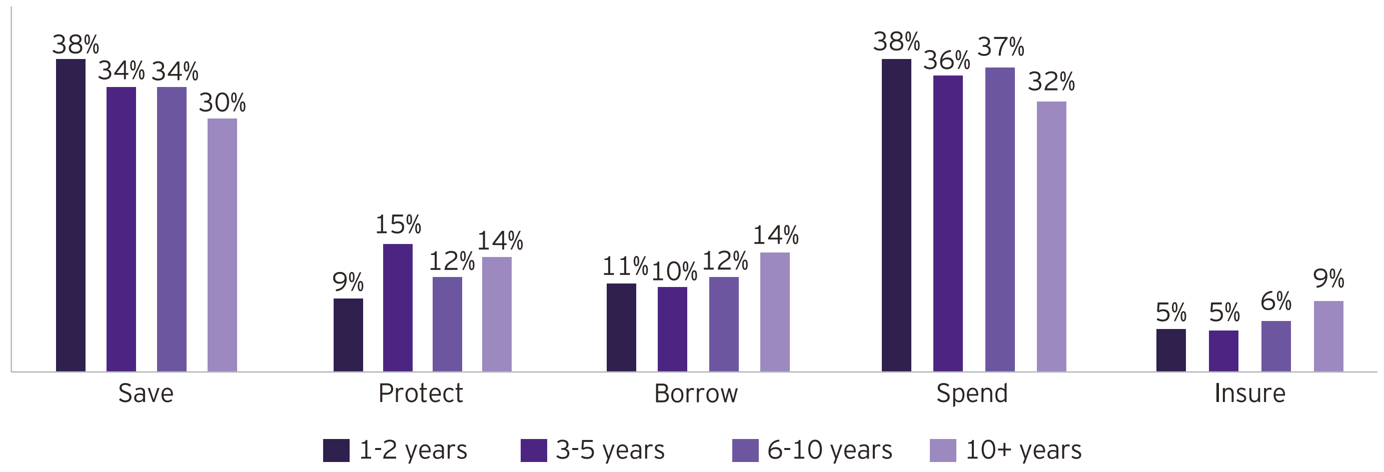

Source: EY India's Banking transformation for new generation consumer survey for India

*The traditional bank and neo-bank partnerships typically involve contractual aspects of revenue sharing, activity distribution, and customer ownership arrangement. Neo-banking incumbents need to rise above the ambiguity by finding suitable banking partners to hold the ground.*

*For other major Indian banks, on the other hand, the need to get their API stack in place may act as a critical enabler to fructify these partnerships.*

As per the EY India survey, on an average, consumers that have three to five years of tenure with their financial services brand have investment as well as insurance and deposits with the same financial services provider. On the other hand, consumers with shorter tenure that is ~ one to two year have ongoing deposits and credit/debit cards with their banks.

Product adoption and length of customer tenure




Source: EY India's Banking transformation for new generation consumer survey for India

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## Digitized neo-banks are here to stay

Over the past few years, the global neobanking industry has witnessed exponential growth in terms of customer base and the size of the overall market despite regulatory hurdles.

**With endless technological possibilities, neo-banks can elevate customer experience by bridging the gaps in traditional banking and simplifying the age-long complex banking processes.**

Further, their technology-enabled solutions and offerings, stand them an opportunity to be the frontrunner in the domain, capture market share, and set themselves on the path to profitability.

**Building strong "DIY" journeys**

- Ubiquitous banking
- Less cumbersome
- Customers feel empowered

**Better Customer Experience and enhanced UI/UX**

- Intuitive user experiences
- Faster and simpler onboarding
- Robust information technology and security infrastructure

**Building an ecosystem**

- Seamless integration with third party providers
- Richer experience
- 24×7 support in regional language

### *Key takeaways*

In India, neo-banks or FinTech companies struggle, owing to a lack of banking license, thereby increasing their dependence on banking partners to provide licensed services.

Traditional banks need to invest more in enabling technologies:

- To build a DIY journey for various offerings
- To curate customer experience through simple and intuitive UI/UX and
- Develop an ecosystem to cater to non-financial needs of the consumer.

# 3

# Bricks to clicks, building a sustainable bank in the digital era

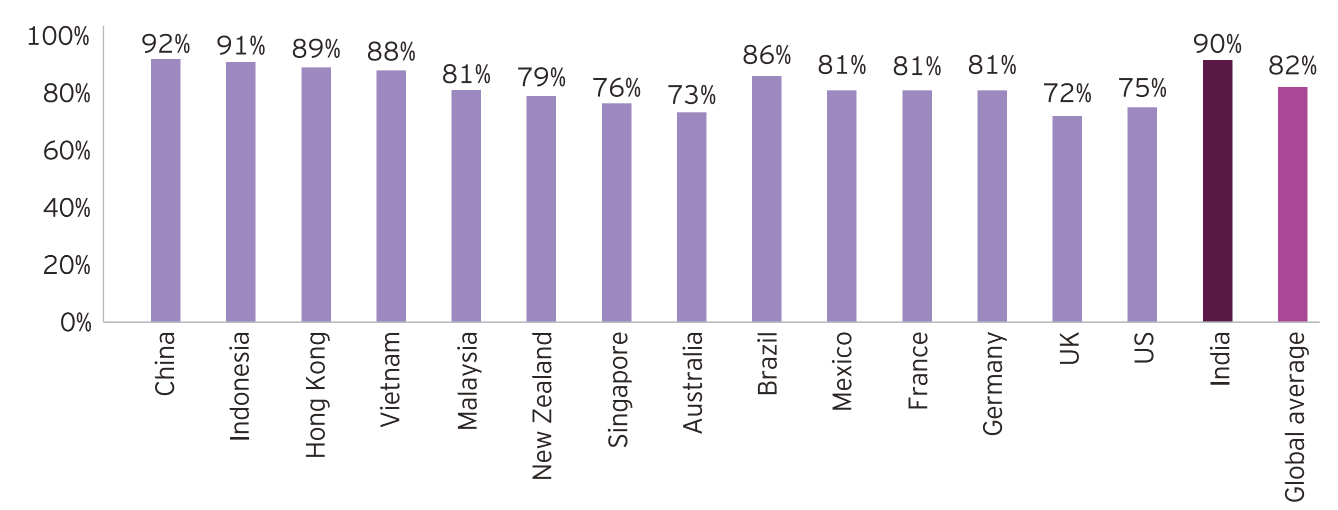


Neo-banks are gaining popularity with consumers majorly because of the superior personalization capabilities and better products offerings. But trust remains a crucial front in the battle for relationship primacy, especially since consumers show a greater willingness to maintain multiple financial relationships.

**Basis our global survey findings on trust in banking parameters, traditional banks still operate from a position of strength. Consumers like to have high degrees of trust in the players they choose for their PFRs.**

In general, the data demonstrates that most consumers completely trust their PFRs, ranging from 72% of the UK consumers to 92% of the Chinese consumers. While the global average of all markets is 82%, in India, this number is ~90%.

By market, consumers who completely or mostly trust their Primary Financial Relationship





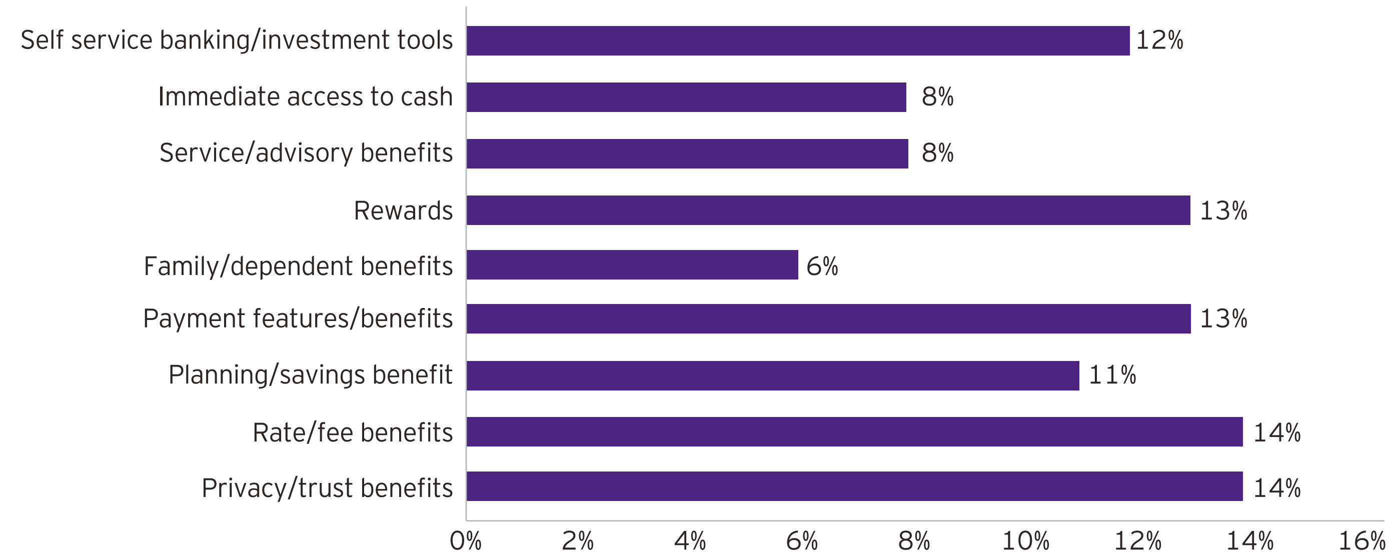
Source: Banking transformation for new generation consumer survey for India, EY 2021 NextWave Global Consumer Banking Survey, EY India 2022

Hence, it is not surprising that while neo-banks are quite ahead in their digital capabilities; they lack a certain credibility in the market. This is because trust of the consumers lies with more established players. Therefore, there is a need for the neo-banks to operate in a collaborative model with the existing players by leveraging on their credibility.

While survey respondents feel that their primary financial service providers cater to their needs, they still feel a gap in their experience. Given increasing consumer propensity for switching, these gaps are a huge competitive vulnerability. The survey data clarifies what consumers want from their financial services providers:

- Help in maximizing the benefits of existing products
- Better rate/fee for their products
- Rewards for each transaction
- Payment benefits

Factors influencing purchase decisions and consumer interest in benefits




Source: EY India's Banking transformation for new generation consumer survey for India

The pandemic has evolved India to being a digital savvy economy, and it continues to grow in that direction. However, it is important to note that despite enjoying the convenience of digital products, most of the money holders/ deposit holders demonstrate a preference toward banks that have a physical presence, making neo-banks struggle hard to win their faith.

3.1

## Traditional banking fosters better trust

This holds true even more when consumers are willing to maintain multiple financial services provider relationships. In the domestic market, respondents show a higher degree of trust in their PFR than the global average. Bank and respondents' trust is consistent with the global average.

Traditional banks continue to benefit from trust advantages, such as branch networks that enable respondents to reach them when they want and respondent confidence that the bank protects their data. However, neo-banks are gaining ground: 14% of the respondents say they have a product or service with a neo-bank, though they are yet to make inroads as PFRs.

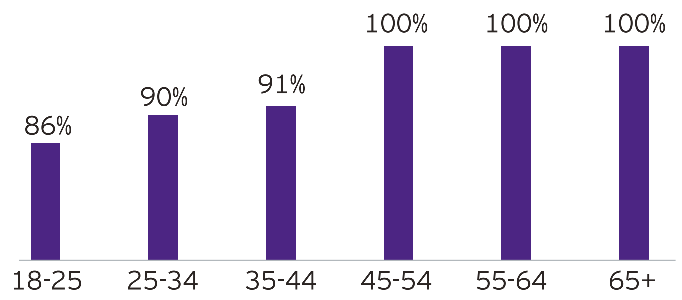
It is also interesting to note that a broad comparison across generations highlights that Gen Z consumers had remarkably low levels of trust in their PFRs than any other age group.

As per our survey, the consumers trust their PFRs more than the global average, which is more prominent in the older generation of the age group 45+. A major reason for this can be long term relationships with established players.

When it comes to trust, traditional banks usually do well. As per the EY India survey, three key reasons driving trust in primary providers are:

- Confidence that they will protect your data
- Making you feel empowered
- Have helped you achieving your financial goals

By age, consumers who trust their primary financial relationship in India




Source: EY India 2022 Banking transformation for new generation consumer survey for India

*Today, more than ever, financial institutions are collecting prodigious and diverse amounts of consumer data – both structured and unstructured – to deepen relationships, create exceptional experiences, further establish financial health and well-being, and build trust. Trust is no longer just about being a safe, reliable, secure, resilient financial institution. It is also heavily reliant upon how financial players empower their customers to make decisions about using customer data to personalize experience and create more value through customized products and services.*

Table 1: Age-wise, in order of importance based on the % of consumers who strongly agree/agree on the top 5 factors in relation to trust

| Rank | Age 18-25 | Age 25-34 | Age 35-44 | Age 45-54 | Age 55-65 | Age 65+ |
|---|---|---|---|---|---|---|
| 1 | Do not share or sell your information | Have demonstrated they care about your needs | Make you feel empowered and confident | Confident they protect your data | Confident they protect your data | Have a branch nearby so you can reach them when you want |
| 2 | Confident they protect your data | Have demonstrated they respect you | Have already helped you with progressing or reaching your financial goals | Have a branch nearby so you can reach them when you want | Have a branch nearby so you can reach them when you want | Confident they protect your data |
| 3 | Top notch experience across channels | Offer the best products/services | No negative news stories about them | Have demonstrated they care about your needs | Have already helped you with progressing or reaching your financial goals | Have demonstrated they respect you |
| 4 | Offer the most affordable product/ services | No negative news stories about them | Confident they protect your data | Offer the best products/services | No negative news stories about them | Have already helped you with progressing or reaching your financial goals |
| 5 | Make you feel empowered and confident | Offer the most affordable product/ services | Offer the best products/services | Have demonstrated they respect you | Have demonstrated they care about your needs | Have demonstrated they care about your needs |

Source: EY India 2022 Banking transformation for new generation consumer survey for India

Personal relationship    Trustworthiness    Product/impact and control

## Key imperatives for banks:

- Banks should enhance data security and privacy protection and put customers in control of their data. In some jurisdictions, open banking regulations already mandate this. But banks that take a proactive approach to empowering customers could differentiate from competitors.
- As the use of artificial intelligence (AI) and machine learning (ML) in decision-making increases, the rationale for these decisions can be opaque and subject to unintended bias. While banks can limit some of these effects by good governance and ensuring diversity in teams developing algorithms, it is critical for banks to have clear audit trails for decisions, and to be able to explain, in simple terms, the rationale behind any decisions to customers.

3.2

## Need for a robust customer service strategy

Achieving meaningful transformation is highly challenging due to the combined need to reduce customer service costs and delivering a high-quality customer experience.

**Market competition, cost pressures, and changing customer expectations create an imperative for banks to transform their customer service operations.**

New banks and fin-techs have differentiated their product and service offering by focusing on the customer experience – thereby raising the bar for the whole banking industry. At the same time, customer expectations have changed, particularly influenced by positive experiences with online shopping and entertainment platforms. Customers across all banking sectors in India –retail, corporate, commercial and MSME banking– now have higher expectations for service delivery. They want it to be a convenient, reliable and omni channel.

Banking investment in digital technology before the COVID-19 pandemic played a major part in helping the sector cope with the crisis. Service delivery experienced a shift from in-branch and face-to-face interactions to digital channels and call centers. Customers are being directed towards self-service channels, for example, by providing click to call options and live agents connected through chats and chatbots. Video conferencing and co-browsing options have also been successfully used to maintain contact with vulnerable customers needing extra support and assistance.

*Customer services best practices banks could take a cue from:*

*E-commerce and OTT players, who are the new leaders of the customer service game,creating consistent and innovative customer-focused approach through the mobile first strategy. They have curated this by providing incredible product experience and quick turnaround time. Ecommerce players have their in-app customer service providers, and processes solely for better customer experience. While they are constantly evolving in providing more flexible service, they are also smart enough to consider the digital experience into account. These players have also provided forums which give consumers an open platform to discuss their experience with the products and assisting potential consumers in their purchase decision.*

According to research and insights from EY Seren, looking at service channels in 2025, artificial intelligence is set to play its biggest role yet – although transparency in terms of usage , and supposed value addition will be vital. Designing beautiful, concise, and simple service experiences will be more important than ever as digital platforms and devices increase in complexity.

The types of customer demand that banks need to support will continue to evolve over the coming years. Banks that can provide simple services across multiple channels will meet customer service needs the best. As per the survey, 28% of consumer tracking and faster resolution of service is one of the key areas of improvement for banks.

The success of banks depends on a multifaceted approach that blends investments in technology and people to give customers the omni-channel access they require. Self-service capability needs to be supported by in-person support for more complex customer queries. Strategic transformation should also seek to turn a traditionally reactive cost center into a proactive generator of increased revenues and brand value.

## Key Imperatives for banks:

- The banks need to reestablish core commitment to provide best-in-class customer service.
- While Gen Z is quite affluent with DIY strategies. A balance of both digital and physical customer service will help in enhancing the consumer experience.
- Banks need to evolve and quickly adapt to leverage technology like AI/ML for developing intelligent ubiquitous service delivery solutions.

3.3

## What makes super apps so super?

**Super apps bring a diversified set of services under one umbrella that can facilitate multiple daily use-cases**

With increasing levels of digitization, greater affordability of smartphones, and a COVID-19-induced preference for digital services, super apps are finding greater acceptance across markets. Super apps combine various financial services via one app or digital experience. The value of a super app resides in its convenience and user experience. For super apps, it is important to have a core offering within the high-frequency platform and engage with customers with minimum friction.

Our survey results indicate consumers' growing fondness for "super apps" for their banking needs in India. Typically, super apps have a higher degree of integration and customer-centricity than traditional banking ecosystems, enabling them to serve as consumers' personal financial operating system (OS). In India, ~86% of consumers are inclined towards using super apps in the future.

Super apps integrate multiple financial services in one app for a superior digital experience. In India, few FinTech companies have already started their journey of creating super apps that provide various financial solutions, such as payment, loan, investment, and insurance along with integrated e-commerce, value added services for merchants, and consumer internet services (such as gaming and entertainment).

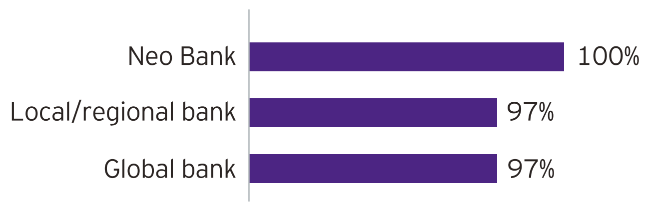
*Traditional banks will benefit immensely from Super app ecosystems:*

*Imagine a one-stop app that lets you manage all transactions – run errands, pay monthly bills, groceries, utilities, cabs, and manage loans, investments and EMIs with pre-configured customer preferences mapping a customer's entire purchasing ecosystem directly integrated to bank account details for a convenient checkout process.*

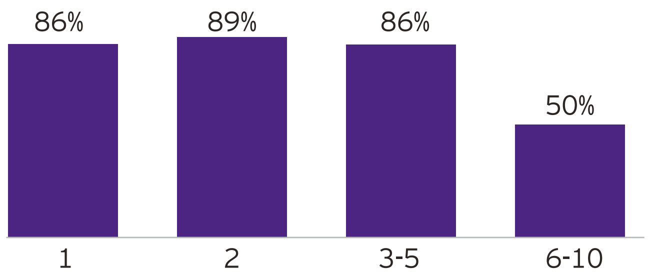
In fact, as per the EY global survey, consumers expressed a strong preference for major banks over neo-banks when it comes to developing ecosystems, as they have a trust advantage. The preference of traditional banks over neo-banks seems particularly strong when it comes to the need to protect consumer data. Some of these super apps might turn to banks for access to banking licenses and to meet other regulatory requirements.

Beyond "one-click" or "one-tap" access to a full range of services, super apps provide next-best-action recommendations and offer additional support for every action taken in any part of the ecosystem.

Consumers who rate seamless integration of their financial providers as extremely important, by bank type




Consumers who are extremely interested in super apps, by number of financial relationships

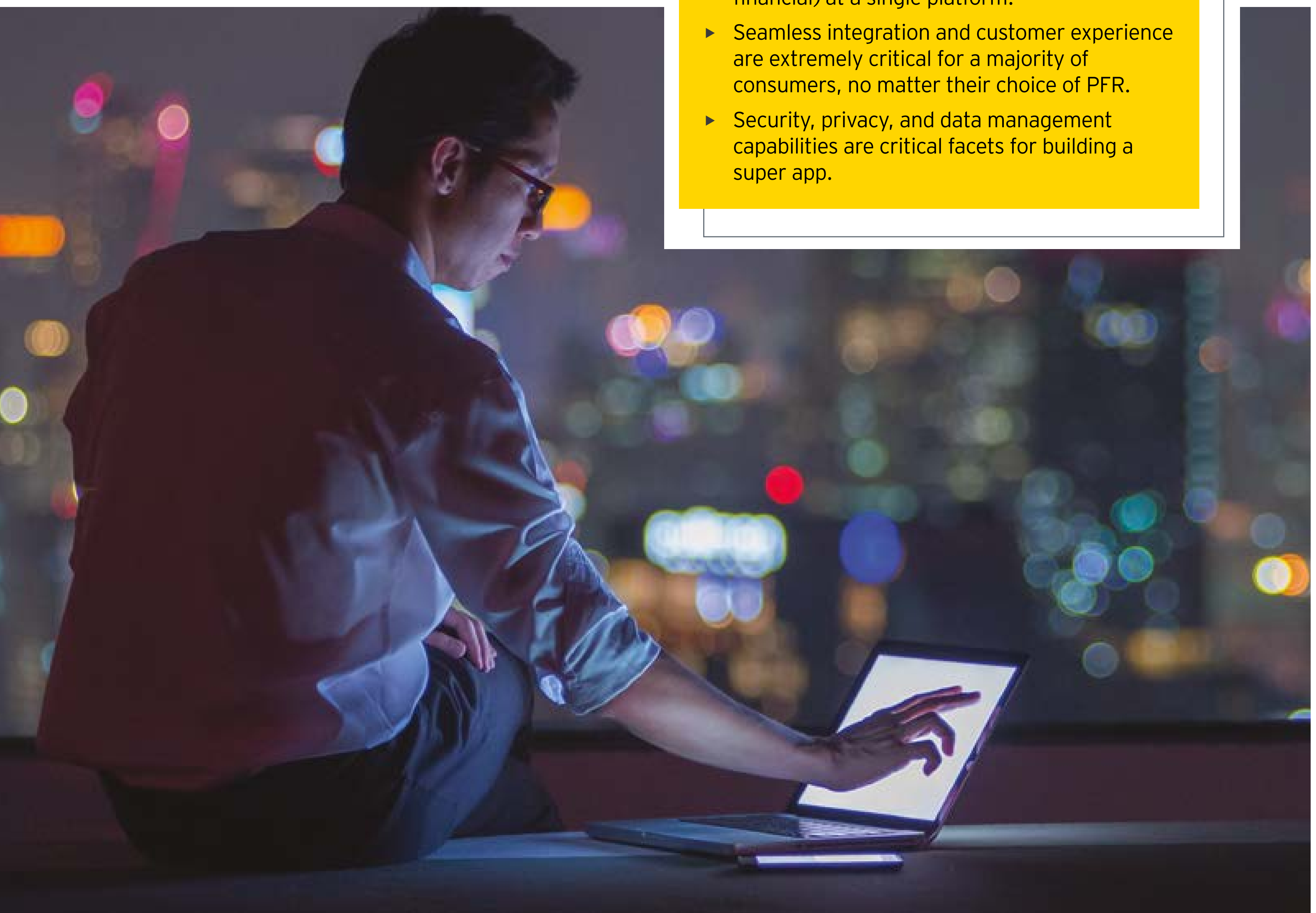



Source: Banking transformation for new generation consumer survey for India, EY India 2022

The popularity of super apps reflects the fact that consumers rate seamless integration of financial services higher within their lives and across multiple providers. The significance of integration is extremely high to majorities of consumers irrespective of their PFRs. The inclination is highest among consumers that maintain between three to five financial services relationships.

*Key Imperatives for banks:*

- Popularity of Super apps indicates the preference of consumers for having multiple products and services (financial and non-financial) at a single platform.
- Seamless integration and customer experience are extremely critical for a majority of consumers, no matter their choice of PFR.
- Security, privacy, and data management capabilities are critical facets for building a super app.



3.4

## Data-driven personalization will carve the way forward

**Digitization is changing financial relationships, but clients' willingness to share their data holds the key to ensuring personalization.**

In a competitive sector like financial services, incumbents need to have a good understanding of what the consumer wants and what are their needs. The following stand out as top priorities to influence purchase decisions in the domestic environment:

- Strong privacy policies and features
- Transparency in rate/fee benefit
- Payment and family benefits are consumers' top priority

Segmentation based on the needs of the target audience is the first step toward success for building platforms. Utilizing the power of disruptive innovations, these neo-banks and FinTech companies in India have access to a plethora of data, giving them an edge by enabling more customized services, basis a customer's payment patterns and buying performance. Further, they can segregate functionalities and features that are relevant to everyone (e-commerce, food delivery apps, entertainment, credit card payments, etc.) and customize offerings based on individual preferences. Customers expect the same level of data personalization from their banks. Understand how Amazon would offer related product suggestions based on user historical purchases, customers expect their banks to offer a personalized user experience and throw similar tailormade services and convenience in minimal clicks/steps. A one-size-to-fit-all approach is passé, and it is time incumbents rise to the level field to not let customers slip away.

**Personalization helps in maximizing functional benefits linked to products.**

The data demonstrates that the young consumers care more about personalization than older groups, with 81% of Gen Z consumers around the world, identifying it as a feature that could deepen their relationships, compared to just 47% of consumers over age 65, who think alike.

In India, however, ~90% of the population would prefer personalization in their financial service providers as per the survey.

**Incentives derived from payments (such as marketplaces) and rates (such as bonus points, cashback) engage the consumers.**

Such engagements further lead to customer stickiness and more instances of referrals, repurchases, and willingness to try new offerings. It is imperative for these players to understand that plain vanilla offerings fail to make a mark and more customized offerings are the need of the hour.

*Neo-banks realized it faster than their traditional banking counterparts that clients are far more open to share their data than before, especially among younger generations. In return, these customers expect the providers to overtly demonstrate the links between sharing of certain data, identify more tailored services, and positive outcomes.*

Consumers believe that the best products are the ones that offer the most valuable features with respect to individual needs and preferences. Hence, banks need personalized communication to express their objective and how products meet customers' needs. Generic marketing emails simply will not cut it. Consumers must come away from every interaction thinking "my bank understands my needs and serves me in that way".

**Data privacy - a clear priority**

Our data proves that strong privacy policies and features (e.g., ID theft protection, control over data usage) are top priorities for the consumers and influence their purchase decisions. Privacy, in the context of personalization and fee transparency, is of utmost to consumers.

Banks need to channel their efforts toward strengthening transparency and serving the customer holistically as integral to their strategy. All this is especially important since consumers want many of the same things that regulators are prioritizing in terms of data security and customer privacy.

*Key Imperatives for banks:*

- The new era of data-driven insights demands banks to uphold the density and richness of their data
- Technology has now matured to a point where gaining real-time insights unlock better value from data
- Banks can provide better services and bespoke data use terms, supported by greater transparency with customers

3.5

## Embedded finance– creating a win-win opportunity

The incorporation of financial tools and services into user journeys are altering the way people are perceiving financial services. A la carte finance is being offered as a solution to consumers either directly as media or communications subscription, or through an online or offline retailer.

**Embedded finance is an attractive part of the user journey at multiple touchpoints, e-commerce being the greatest example.**

Embedded finance increases customer's lifetime value, while enabling businesses in the MSME, B2C, and B2B segments to monetize their customer base for additional revenue streams. This enhances consumer stickiness and provides opportunities to cross sell. Embedded finance will become a massive market with an estimated US$7trillion[7] massive global opportunity by 2030.

Few prominent segments of opportunity for embedded finance include marketplaces, OTT and online gaming, travel and transport, education, agriculture, health and wellness, energy, construction, and real estate. Embedded finance integrates numerous parties together and aids them in playing to their strengths, thus creating a win-win opportunity.

In recent years, embedded finance has gained traction, based on an increasing range of offerings and examples. This is driven by customers who are increasingly welcoming, attractive, one-stop shopping experiences – enabled by simple financial products. This is an opportunity for all the players involved. It is a win-win for all – platform providers, banks as well as customers. Platform providers increase their revenue streams and customer retention, banks develop new acquisition channels to onboard customers and consumers enjoy an integrated experience. For example, ~61% of banks are looking to co-source tax-related activities with third-party vendors.

Embedded finance is anticipated to be utilized predominantly in payment services. Payments enjoy a frequent point of contact with customers and can act as an entry point leading to the other embedded financial functions. Next in line is insurance, which has also seen an increased demand on various platforms.

Similarly, in lending, providing short-term loans to customers who face a shortage of funds at the time of payment taps into the demand. Buy Now Pay Later (BNPL) schemes and similar solutions also possess the considerable advantage of being easy to use. Keeping a customer's funds for payment in a digital wallet is yet another example of embedded finance.

*Embedded finance can be defined as the seamless integration of financial services into a non-financial service platform. It is as simple as aiding customers to make cashless payments within a cab rental or food delivery app and book insurance while purchasing a laptop on an e-commerce site.*

- Embedded payments: refer to adding the payment layer as a feature for external third parties, like FinTech companies or new economy digital players.
- Embedded lending: integrates end-to-end credit products with a broader tech ecosystem or any e-commerce platform. The aim is to allow a non-FS player to provide loans directly through its consumer platform.
- Embedded insurance: refers to integrating insurance products through consumer platforms. For example, enabling a consumer to purchase travel insurance products on the back of an online travel platform.

### *Key Imperatives for banks:*

- The most noteworthy trend is that customers increasingly seek simple, holistic, embedded, and direct experiences.
- With the growth of digitization, including automation and APIs, banks can scale BaaS (Banking as a service) faster, putting embedded finance within reach for more companies considering it.
- Regulatory trends, including PSD2 and open banking, are promoting the development of banking APIs and universal access. The need to comply with these new requirements–often through IT modernization–is driving some banks to consider expanded or new platform business models to recoup costs and take advantage of tech builds.

3.6

## An integrated ecosystem for digital transformation

The survey estimates **that banks' IT investment will reach US$309 billion globally by 2022[8]. Banks need to realize and action upon new relationship models to enhance growth. The new essentials for banks in the era of open banking comprise building trust and renovating customer interactions into personalized experiences[9].**

After evaluating multiple digital platforms, several banks have identified customer-facing ecosystems as one model to enhance long-term relationships, enabling multiple customer interactions and touchpoints. Such models combine banking strengths with third party supplied artificial intelligence (AI) and cloud-based solutions to make a solution where everyone benefits – banks, customers as well as stakeholders. The challenge remains in determining the most effective ways to leverage these collaborative attributes.

As per the EY FinTech adoption survey, 73% of the respondents agree their financial services firms should lead to creating and using emerging technologies to enable ease of doing business.

It is about time that banks go beyond conventional financial needs to cater to a wider range of consumer needs to offer integrated, contextualized experiences. In an ecosystem model, the banks aim to provide multiple non-financial offerings and a one-stop-shop experience to enhance customer experience.

**Integrating non-financial and financial services through ecosystems becomes an opportunity to establish trust.**

***Banks have three specific roles that they can play in an ecosystem:*** *They can either act as creator, or a connector or a participator. As creators, banks can build brand new ecosystems while as a connector they can collaborate and form strategic alliances with a plethora of players for providing non-banking service through digital integrations. As a participant, banks can participate in already existing ecosystems by providing relevant solutions.*

In addition to choosing their preferred ecosystem model, banks have a wide array of options when it comes to which areas to focus on. As banks take steps to define their version of the future, business and operating models will differ significantly. This will help in increasing long-term value by raising loyalty towards the platform and result in consumer stickiness.

### *Key Imperatives for banks:*

- Banks can identify clear strategic objectives for an ecosystem business model and then establish a framework to assess existing capabilities and value chains. Analyze potential partnership opportunities that align with the banks' objective using a well-defined, measurable framework and target areas for short, medium and long-term investments.
- Identify specific partners and business models for each opportunity, conduct due diligence on potential partners and work out the details of partnership agreements, including ownership, management, branding and communications rights, and exit provisions.

[7]Oracle's estimates; Embedded finance for transaction banking, https://www.oracle.com/a/ocom/docs/industries/financial-services/embedded-finance-transaction-banking-sb.pdf

## 3.7 Metaverse: not just another tick in the box

In the peak COVID-19 times, business and social interactions automatically shifted to the digital space. Post pandemic, interest in virtual ways of communicating and collaborating continues to hold the ground. Against this background, it is hardly surprising that developments in the metaverse are catching the eye of organizations and private individuals alike. Rise in metaverse adoption is a definite offspring if things continue as anticipated. Metaverse promises to be a collective, virtual shared space in which people can interact remotely and have multi-sensory experiences.

Metaverse is enabled by Web 3.0, which represents the consistent development of the internet toward more digital social interaction, semantic and context-based search algorithms, and a strong orientation towards media-based information and entertainment. Web 3.0 provides the basic building blocks of the metaverse. The virtual worlds themselves are distinct platforms and developers and users are shaping these environments based on their vision, strategy, and emerging technological advances.

*Metaverse enables humans to interact with each other as avatars in a 3D space. Although there are a few examples of "metaverse" at present, we can describe it as the evolution and extension of the internet, as exploited by various providers of virtual world infrastructure. J.P. Morgan was the first bank to establish a presence in the metaverse by opening a lounge named Onyx in Decentraland. This was followed by the Industrial Bank of Korea's Cyworld and Kookmin Brank's KB Financial Town.*

**Traditional banking**

- Two tier banking model governed by central banks relies heavily on 1-1 customer interactions in the physical space.
- Manual and paper based and lacked customizations and personalisation of products and services.

**Digital banking**

- Digitization of existing processes, availability through the internet and mobile channels.
- Building entirely new customer journeys, keeping digital and data first in mind. Offering improved customer experience, engagement and operations.

**Open and beyond banking**

- Significant developments in banking as a service, where banks can seamlessly connect and offer third-party services through APIs thanks to regulations like PSD2 and GDPR.
- Operate as digital-only banks, neo-banks and cross industry marketplaces

**Decentralized finance**

- Blockchain Technology with the advent of Web3, has given rise to an entirely new economy that is borderless, secure, fast and more decentralized.
- A huge uptake in NFT, Crypto and central bank digital currencies has led to a new virtual and creator economy by unlocking potential of entirely new assets in the market like, art, real estate and gaming.
- Traditional banks now have to build a strategy to address this new segment of customers and engage regulators proactively.

**Metaverse banking**

- As metaverse thrives on an economic system, NFTs will take centre stage to unlock value in the metaverse.
- As metaverse becomes the norm to play, work and socialize, demand for a trusted mechanism to drive value exchange in the metaverse will shoot up.



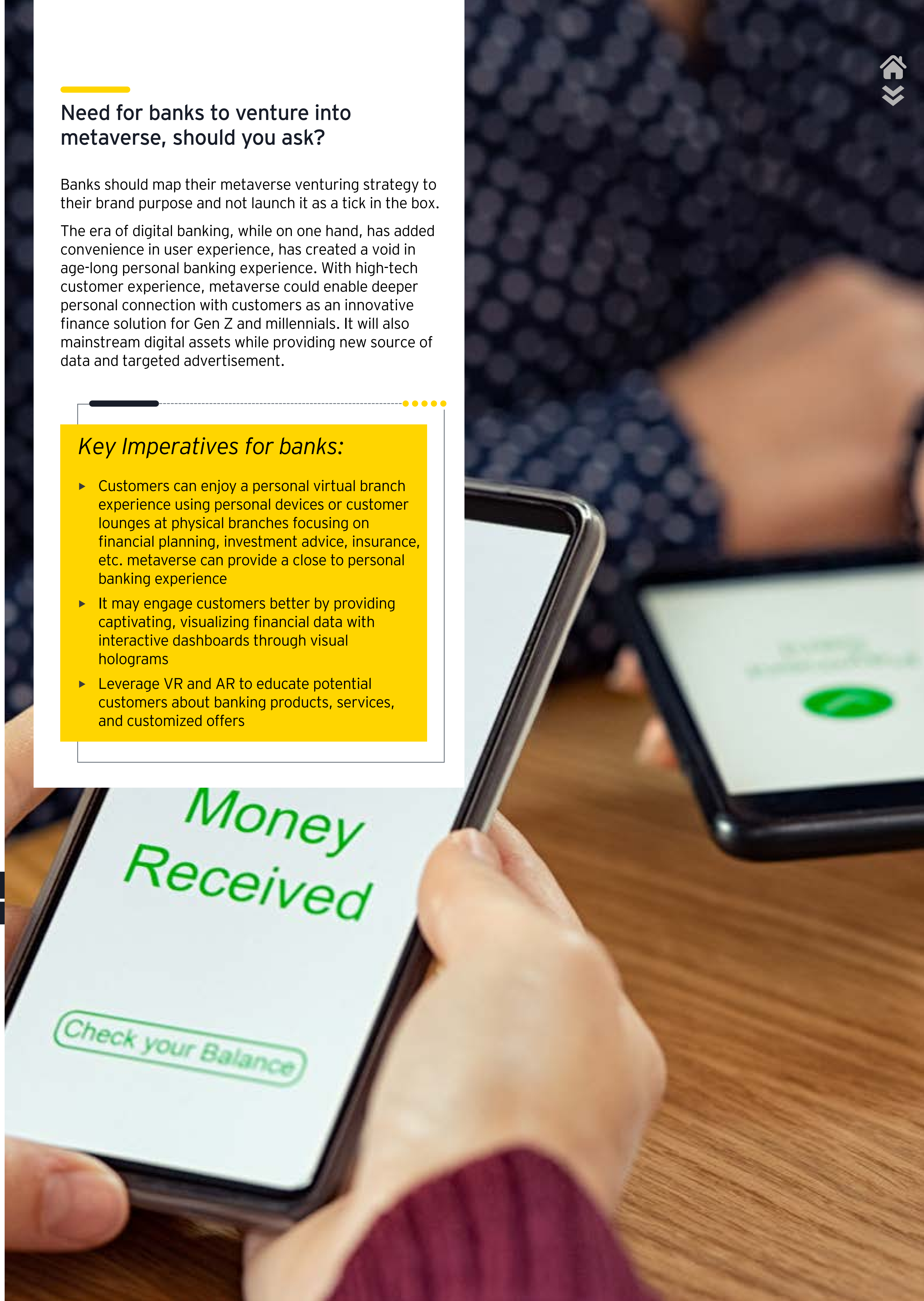
### Need for banks to venture into metaverse, should you ask?

Banks should map their metaverse venturing strategy to their brand purpose and not launch it as a tick in the box.

The era of digital banking, while on one hand, has added convenience in user experience, has created a void in age-long personal banking experience. With high-tech customer experience, metaverse could enable deeper personal connection with customers as an innovative finance solution for Gen Z and millennials. It will also mainstream digital assets while providing new source of data and targeted advertisement.

*Key Imperatives for banks:*

- Customers can enjoy a personal virtual branch experience using personal devices or customer lounges at physical branches focusing on financial planning, investment advice, insurance, etc. metaverse can provide a close to personal banking experience
- It may engage customers better by providing captivating, visualizing financial data with interactive dashboards through visual holograms
- Leverage VR and AR to educate potential customers about banking products, services, and customized offers



# 4

# The transformation imperative for banks

*By 2030, Gen Z will comprise the majority of the banking population and must drive banks to reshape their business and operating models to remain relevant in the new ecosystem.*

The momentum achieved by neo-banks and financial services players post the pandemic has been exponential. The gains made through digital platforms are significant and this behavior is less likely to change in the future. We believe the following actions shall be critical thinking arenas:

**Loyalty programs**

The survey anticipates that retaining a customer's loyalty will be harder than ever and hence, winners shall be those who straighten the focus on enhancing digital behavior with the consumers. This shall help retain, engage, and add customers to their wallets.

**A win-win ecosystem**

In India, the current regulatory landscape allows only a partnership route for neo-banking startups. The traditional bank and neo-bank partnerships typically involve contractual aspects of revenue sharing, activity distribution, and customer ownership arrangement. Most consumers still choose banks for their PFRs today. But neo-banks have gained a foothold across generations. The selection of a suitable partner for both traditional banks as well as FinTech companies need to be a critical element of business strategy.

**A battle of trust**

While trust lies with traditional players, they need to enhance their digital capabilities on the following:

- Enhancing their DIY journeys
- Creating personalized ecosystems and
- Better consumer experience through UI/UX

**Enabled Platformication**

Without a strong platform approach, it is difficult to curate a personalized and superior customer experience to enhance growth for the banks. Without a suitable platform, it is hard to deliver the level of personalization and superior customer experiences necessary for growth.

**Unforgettable Customer experience**

Customers will forget the products and services, but they will not forget how you made them feel. As an end-strategy, neo-banks must ensure customers that are treated uniquely at each-and-every touchpoint. Neo-banks must highly value functional benefits that bring maximum rewards through personalized offerings, such as reward points, loyalty programs etc.

**Need for super apps**

The potential for super apps to enable greater insight and more personalized offerings to retail banking customers, empowering them, and giving them greater financial confidence could be a game changer. Players that invest well in this will become champions in customer trust and win market share.

**Embedded finance**

An integrated approach to embedded finance by leveraging customer data to offer seamless, connected journeys and will turn the tables.

**Metaverse could be a stance on regaining personalization**

With a high-tech customer experience, metaverse could enable in deepening the relationship with customers as an innovative finance solution for Gen Z and millennials.

# About

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## Financial Services practice

**Trusted**
**Transformation Partners**

EY India's FS practice holds its niche in risk and actuarial; technology risk and cyber; and advanced engineering. For our clients, we bring to the table a seamless collaboration, innovative problem solving, breakthrough performance gains, and sustainable value creation.

The financial industry in India today stands at the influx of exponential growth powered by digitization and cashless payments. Amid sweeping regulatory change, financial institutions are focusing on digital transformation, convergence, and disruption –all while meeting greater demands for trust and transparency. To address this delicate balance of issues, our global team of business strategists, technologists, and industry leaders bring fresh thinking and sector knowledge across the gamut of banking and capital markets, insurance, and wealth and asset management.

### How we do it?

EY India's FS experts help clients realize their long-term value through transformations that place humans at the center, deploy technology at speed and innovation at scale. This is reflected well in our wider pursuits, technology partnerships, and client testimonials.

### A strong & diverse team

**60+**
**Multi-competency Partners**
with rich expertise in FS transformations

**5000+**
**Member team**
with varied and new age skills

**10+**
**Industry stalwarts**
with key sector insights

**200K+**
**Training hours**
to upskill employees

### Financial Services & Consulting Leadership

**Abizer Diwanji**
Financial Services Leader

30+ years of experience in Financial services in Strategy, M&A, Debt Raising and Capital Restructuring

**Rohan Sachdev**
India Consulting Leader

25+ years of extensive experience in strategy formulation, corporate planning, risk management and business transformation

**Mahesh Makhija**
Technology Consulting Leader

25 years of experience in technology, consulting and digital transformation

**Pratik Shah**
FS Consulting Leader

20+ years of experience in business, risk and technology transformation with focus on offshoring and FS GCC set up

**Subir Mehra**
FS Global Captives Leader

35 years of experience in leading large revenue generating businesses and Global Ops and Technology enterprises focussed on cost take-out and customer experience.

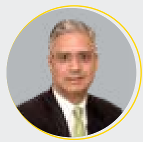
### Sector leaders and business transformation leads

**Harsh Bisht**
Banking and Capital Markets

30+ years of experience in business and operating model transformation, customer experience transformation and digitization, post-merger integration

**Fali Hodiwalla**
Non-Banking Financial Companies

20+ years of experience in strategic and operational areas incl. transformation, digital strategies and implementation, regulatory assistance, and new business build-outs



**Shiney Prasad**
Insurance

20+ years in insurance advisory and shared services set up, digital transformation and process re-engineering

**Ranadurjay Talukdar**
Payments

18+ years in building products, analytical models, portfolio management, risk, digital and technology frameworks issuers, acquirers, merchants and fintechs

# Notes



# Notes

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