

Successful digital banks and fintechs fully understand what they can do well and recognize the areas that are best served by other technology service providers and partners.

Growing Digital Banks and Fintechs Require a Strategic Approach to Addressing Current and Future Needs

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Written by: Marc DeCastro, Research Director, IDC Financial Insights

Introduction

Digital banking is how a financial service provider engages and interacts with prospects or customers using digital self-service products, including online and mobile banking, virtual agents, chats, and conversational banking solutions. A digital bank is built on modern architecture for individuals who want to reap the benefits of a digital-only relationship while forgoing the ability to engage in person with the financial institution. Incumbent banks are institutions that predate digital banking and must continue to maintain legacy channels and architecture while modernizing experiences and back-office platforms.

Fintechs provide the financial services industry with the tools its members need to engage with their customers using modern solutions and platforms. The fintech industry is innovative and growing rapidly. In 2020, the top 125 global fintechs topped \$220 billion in revenue from the sale of hardware, software, and services to the banking, insurance, and capital market industries, which represents 21% year-over-year growth, according to IDC Financial Insights' *2020 IDC FinTech Rankings*.

Fintechs typically start with a fresh idea that uses technology to provide a better customer experience, open up a new market, or introduce a new product or service. At this point, the funding for most fintechs comes through personal investment, angel investors, or venture capital firms. There are thousands of companies at this early stage. Many will fail or be acquired, but others will forge ahead with their idea and product.

Most fintechs do an excellent job of creating experiences. However, unlike legacy providers, they frequently lack the expertise needed to address regulatory concerns, provide operational controls, hire into a rapidly growing environment, and create risk management frameworks. These deficiencies often trip up fintechs and prevent them from scaling. To grow their businesses, they need to start thinking about how to automate routine tasks. Fintechs also need to understand regulatory compliance across multiple countries and regions while implementing fraud management solutions.

AT A GLANCE

KEY STATS

IDC predicts that technology spend overall in worldwide financial services (hardware, software, and services) will reach the following levels:

- » 2021 estimated: \$392 billion
- » 2024 estimated: \$421 billion

WHAT'S IMPORTANT

Despite being in a lucrative industry like financial services with a large total addressable market, many fintechs are unable to scale and keep up with industry trends and increasing regulatory pressure.

Fintechs must properly support existing customers and use analytics to create contextualized experiences that put the customer first and create a true omni-experience. This will require looking beyond a fully digital experience and can incorporate employee-assisted channels, such as the contact center or branch, and even integrate financial service partners into the experience.

Benefits

Building out a successful fintech requires alignment of the right objectives and business outcomes. Many fintechs have been successful disruptors because of their ability to understand trends within the industry, and they have developed solutions that address customers' financial needs using technology. However, certain areas of the business can become headwinds to rapid growth. To set themselves up for future success, fintechs should strive to achieve the following objectives:

- » Build speed, agility, and flexibility
 - The objective is to achieve hypergrowth, so fintechs require agility and flexibility from their partners as they grow their business.
 - Rapid growth will lead to an increase in incremental costs and possibly fixed costs to address the growing activity level. Fintechs need to build the impact of growing costs into cash flow analysis.
- » Improve operational models
 - Operational challenges are often an afterthought for fintechs and can become a bottleneck for growth. They need to develop operational models early in the process before rapid growth has begun.
 - Developing key performance indicators based on quantifiable measurements that can identify areas in need of attention is also important.
 - As business needs change, the fintech's operational models need to change, too.
- » Embed financial services in emerging customer lifestyles
 - Technology solutions that may not have had stringent reporting needs but are now providing financial services will be treated accordingly by regulators and must be able to adhere to rigid reporting requirements.
 - Customers are sensitive about how their data is used. Personal information must be protected as their lifestyle journeys become intertwined with their financial journeys.
 - The impact of bad actors is only growing as our world becomes more digital. Fintechs need to focus on providing cybersecurity, having a plan to prevent and respond to data breaches, and fighting back against ransomware attacks.

Financial Services Strategic Initiatives

The financial services industry has seen many inflection points and business cycles over the years that have challenged it to be innovative in order to remain competitive and relevant. Reluctance to change is rarely an option, despite the perceived conservative nature of incumbent institutions. Their success is generally grounded in developing guiding strategic initiatives that can stand the test of time. Fintechs have seen fewer business cycles, but that often means that they are not impacted by legacy thinking and the "this is how we have always done it" mindset that typically creates a drag on growth and innovation from legacy providers and institutions.

However, the following areas seem to be table stakes for success within financial services:

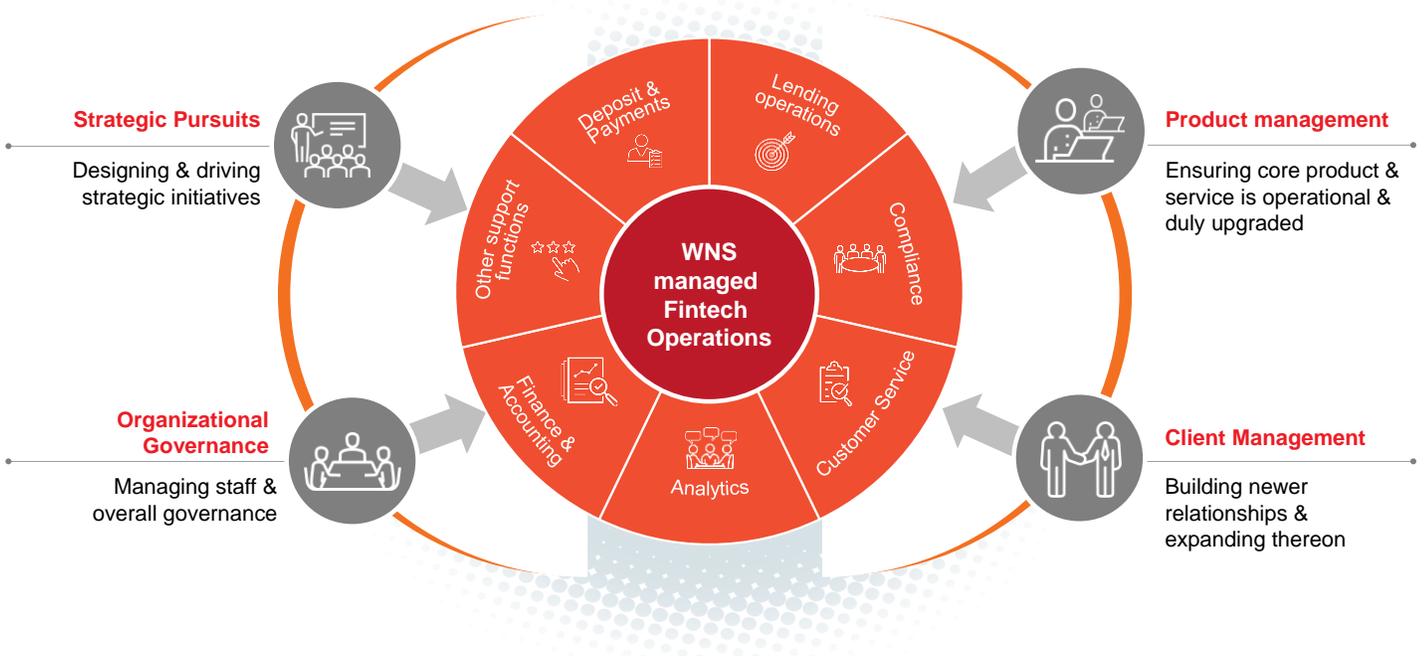
- » Creating operational resiliency
 - Develop workflow automation to bring in transparency in operational activities with predictable outcomes and closure time frames.
 - Leverage platform modernization to address regulatory requirements and provide competitive services to customers. Use plug-and-play technology for faster implementation and time to market.
 - Cultivate flexibility to address operational changes based on varying levels of activity and growth cycles.
 - Use data collection and aggregation from internal and external sources to help feed analytics tools and dashboards.
- » Embedding digital trust and stewardship
 - Make identity management investments in areas such as customer due diligence (CDD) and know your customer (KYC), which provide required components of onboarding and CDD to maintain compliance with ever-changing regulations at federal and local levels.
 - Guarantee data and information security with transparent data handling and disclosures of data used and shared, and offer the ability to opt out.
 - Provide customer-friendly digital user interfaces for document handling, identity verification, data collection, and managing the entire customer life cycle from application to onboarding.
 - Protect customers from financial crime and bad actors while combating internal threats to systems and operations.
- » Delivering outstanding customer and employee experiences
 - Take an advisory role to help customers achieve financial success as opposed to a strictly transactional pass through.
 - Improve the experiences on digital self-service solutions such as online and mobile banking, conversational banking, virtual agents, and bots to engage customers and provide them with tools to complete service enhancements.
 - Improve employee-assisted channels to provide more mobility and modernized engagement tools when digital self-service is either not desired or not feasible.
 - Utilize analytics-driven business insights on customer sentiments to understand gaps in the performance and features of solutions.

Considering WNS

WNS is a global business process management company that offers an array of end-to-end industry-specific and cross-industry solutions. The company combines deep industry knowledge with technology, analytics, and process expertise to co-create innovative, digitally enabled transformational solutions with more than 380 clients across various industries. Its solutions and capabilities encompass intelligent automation including robotic process automation (RPA), artificial intelligence (AI), and cognitive computing; natural language processing and machine learning; business process-as-a-service (BPaaS) platforms; embedded analytics; and process reengineering frameworks.

The company's banking and financial services practice supports more than 25 leading clients with a comprehensive suite of business process management and transformation solutions. Clients include large commercial and retail banks, wholesale and retail lenders, community banks, wealth advisors, asset managers, hedge funds, B2C and B2B financial technology (commonly referred to as fintech) organizations, and mortgage servicing companies. WNS also provides a customized set of offerings designed to address the operational and business needs of fintech firms (see Figure 1). The company sees this segment as a key strategic focus area with more than 10 clients across the United States and the United Kingdom.

FIGURE 1: *The WNS Operating Model*



Source: WNS, 2021

With its fintech-specific service offerings, WNS is positioned to address the key fintech imperatives of operational resilience, trust and safety, customer experience, and industry-specific back office.

Operational resilience. WNS offers a scalable, agile, and resilient operating model that enables fintech firms to successfully cope with rapid growth in their businesses without disrupting operations and customer experience.

- » The model can scale up/down as needed, enabled by a ready talent pool and a robust operations support ecosystem.
- » There is a robust physical infrastructure combined with an IT infrastructure with built-in redundancy and a secure work-from-home infrastructure that allows for continuity in operations.

Trust and safety. WNS can help fintech firms improve the efficiency and effectiveness of their compliance operations in several ways:

- » WNS financial crime compliance solutions are staffed with experienced resources, including ACAM and CFE certified specialists.
- » The financial crime compliance solutions from WNS are augmented by in-house AI/ML-based automation solutions as well as solutions from WNS partners such as Tookitaki, Onfido, and NorthRow.
- » A robust information security framework, based on ISO 27001 principles, is in place to enable high levels of information security, privacy, and compliance.

Customer experience. The company's portfolio of customer experience solutions includes the following:

- » WNS EXPIRIUS is a digitally integrated customer experience service model that leverages human-assisted design to simplify processes across domains, deliver improved business outcomes, and build customer trust. It comprises the following:
 - An analytics suite that can generate valuable and actionable insights to improve the overall customer experience
 - A group of self-service solutions such as intelligent virtual assistants and optimized intelligent voice response (IVR) that allow for cost-effective operations
- » Customer support helps with onboarding, resolves queries, handles complaints, and accepts and fulfills requests for retail customers as well as businesses. (B2B fintech firms and B2B2C marketplaces provide business banking services, commercial lending, and working capital management and investments.)

Industry-specific back office. WNS augments the digital service delivery model of the fintech firms by supporting activities such as the following:

- » **Origination.** This activity encompasses application data entry, document review and verification, and account setup.
- » **Credit evaluation.** Supporting financial research, ability to pay, annual review, collateral monitoring for business/commercial entities is all part of this process.
- » **Servicing.** This activity includes fulfillment of customer requests, complaints, transaction processing exception management, and customer account maintenance.
- » **Advisory services.** This process enables robust process controls, operational best practices, and effective risk management.

Challenges

One of the challenges for WNS is continuing to grow its traditional bank client base while maintaining the rapid growth of adding to and expanding its existing fintech client segment. The fintech industry can be challenging, particularly because WNS is focused on not only the digital banks and the neobanks but also the technology firms that support the banking, insurance, and capital market firms. While this approach can create tremendous opportunities, there could be uneven levels of growth based on macroeconomic conditions that could impact fintechs more negatively than traditional banks.

In addition, the domain expertise obtained by WNS has been derived from its engagements with larger banks and institutions that provide full-service solutions across all aspects of financial services. This knowledge can be leveraged to assist fintechs and help them grow. In return, the knowledge obtained by WNS from working with fintechs can also lead to a more innovative and agile approach to product, operations, and compliance, which WNS can utilize to assist its current traditional bank clients. Thus, WNS will want to maintain a balanced focus across traditional banks and fintechs.

Conclusion

Digital banks and fintechs are looking to grow rapidly, but they frequently do not have the understanding or resources to address some of the staffing, operational, regulatory, and security concerns that are obstacles to success. The robust services and domain expertise that a vendor such as WNS offers can help address some of the traditional pain points faced by emerging organizations such as fintechs. IDC believes that the growth of the fintech industry will continue to accelerate, and to the extent that WNS can address the challenges described in this paper, the company has a significant opportunity for success.

The fintech industry is innovative and growing rapidly.

About the Analyst



Marc DeCastro, Research Director, Consumer Banking

Marc DeCastro is Research Director for IDC Financial Insights responsible for the Consumer Banking Engagement Strategies practice. Mr. DeCastro's core research coverage includes the complete omni-experience journey for the retail customer, including branch transformation, digital product strategies, and onboarding. Based on his background covering the consumer banking space, Mr. DeCastro's research also includes a particular emphasis on how consumer trends and habits are forming the next-generation products and services that utilize current and emerging technology.

MESSAGE FROM THE SPONSOR

WNS (Holdings) Limited (NYSE: WNS) is a leading Business Process Management (BPM) company that combines deep industry knowledge with technology, analytics and process expertise to co-create innovative, digitally led transformational solutions with over 375 clients across various industries. We have 46,000+ employees across 57 delivery centers worldwide.

We partner with banking, financial services and FinTech companies to drive momentum in their digital transformation journey. **WNS FINSIBLE** for FinTech firms is a comprehensive back-office solution suite, which can be customized to match a company's operational maturity level. This suite encompasses the entire spectrum of BPM solutions, including Deposit & Payment Operations, Lending Operations, Compliance Operations, Customer Experience Services, Data & Analytics, and Shared Services (Finance & Accounting, Procurement, HRO and Technology Services). Our differentiated solutions and focus on enabling disruptive innovation for FinTech companies have earned us industry recognition.

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IDC Research, Inc.
140 Kendrick Street
Building B
Needham, MA 02494, USA
T 508.872.8200
F 508.935.4015
Twitter @IDC
idc-insights-community.com
www.idc.com

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