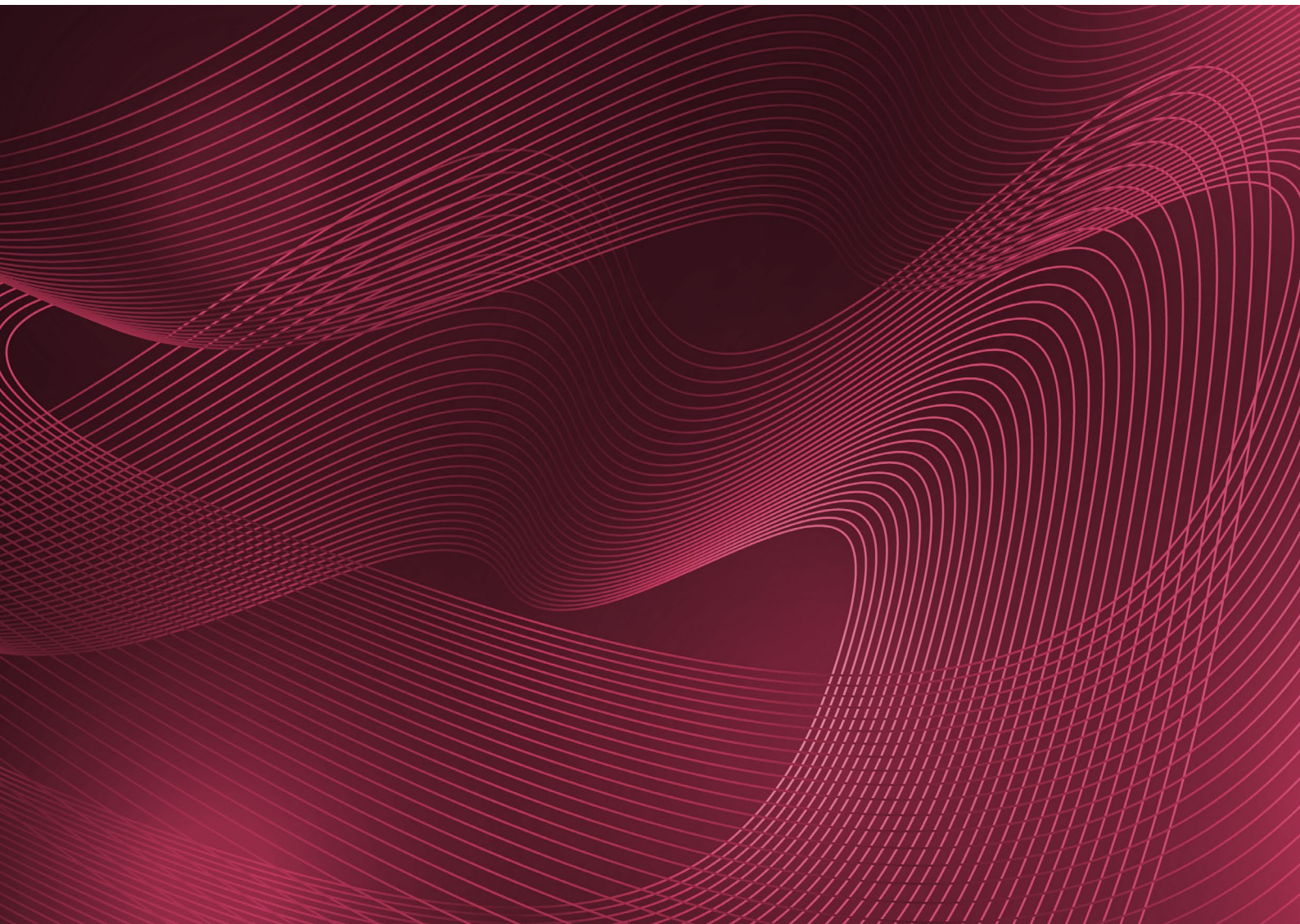
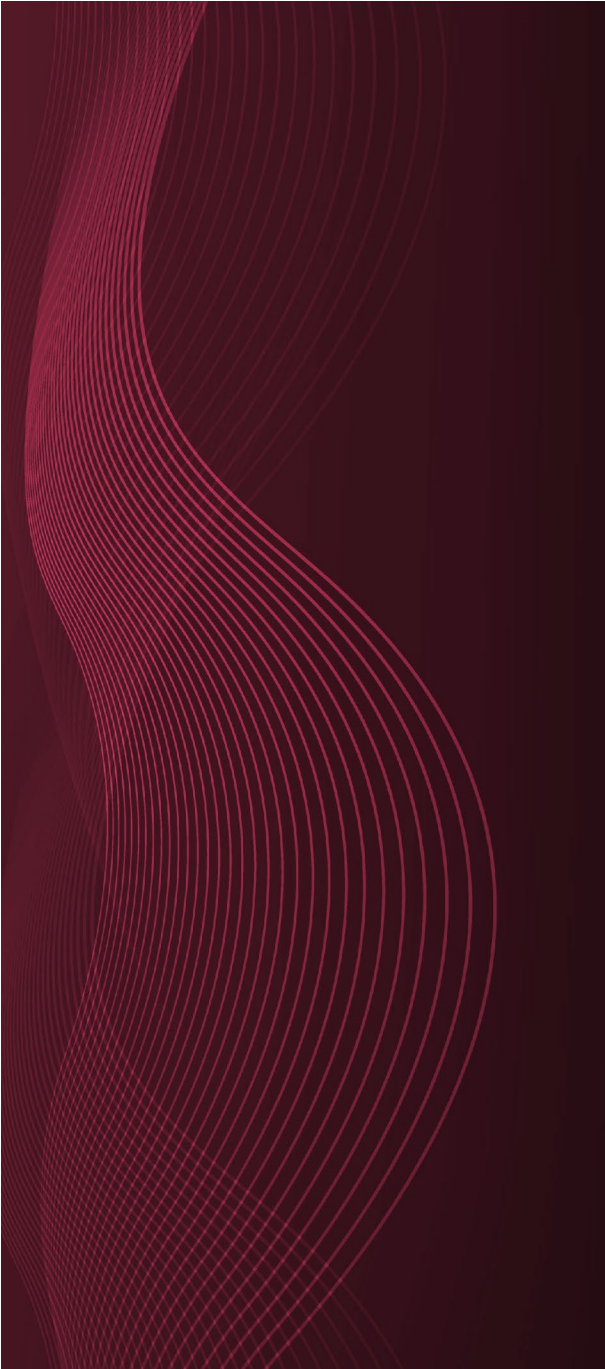


CAPCO | DIGITAL

INNOVATE - TRANSFORM - LEVERAGE



INTRODUCTION



Dear Colleagues,

Like many financial services professionals, you are probably curious about how our industry will develop and change over the coming years. Perhaps you believe that our industry, which has a mandate to provide state of the art, professional and ethically robust service, requires a fundamental change in the way it meets this promise.

It may feel like “digitization” and “innovation” are answers to these challenges, and financial services firms have launched many initiatives for the sake of doing something innovative or disruptive. But are they really helping to transform the industry, and the way that banks service their customers, in a positive way?

Our team at Capco has deep industry expertise and is passionate about sustainable change. We want to influence the digital journey that our clients are undertaking, to help them secure profitable growth, and leverage innovation to make their customers' lives easier.

This booklet contains Capco's view on some of the major trends and opportunities that are impacting our industry today. We also provide concrete ideas on how Capco can support you during these changing times. We have a clear aim: we want to ensure that financial services firms leverage digitization and innovation to help them serve clients and employees even better in the future.

Let us partner with you to move the industry forward - together.

**Yours sincerely,
Nils Reimelt, Managing Principal
Capco Digital Switzerland**

YOUR CLIENT SPEAKS DIGITAL - DO YOU, TOO?

Leading digital industry players like Google, Amazon, Alibaba and Uber have fundamentally changed the way we gather information, shop and interact with each other. Their services are problem-solving, customer-centric, connected and fully integrated into our daily lives. We expect banking to be the same.

THE WINNER TAKES IT ALL

Disruptors are entering the market more and more, usually by leveraging big user communities or providing innovative end-to-end services (e.g. marketplace lending).

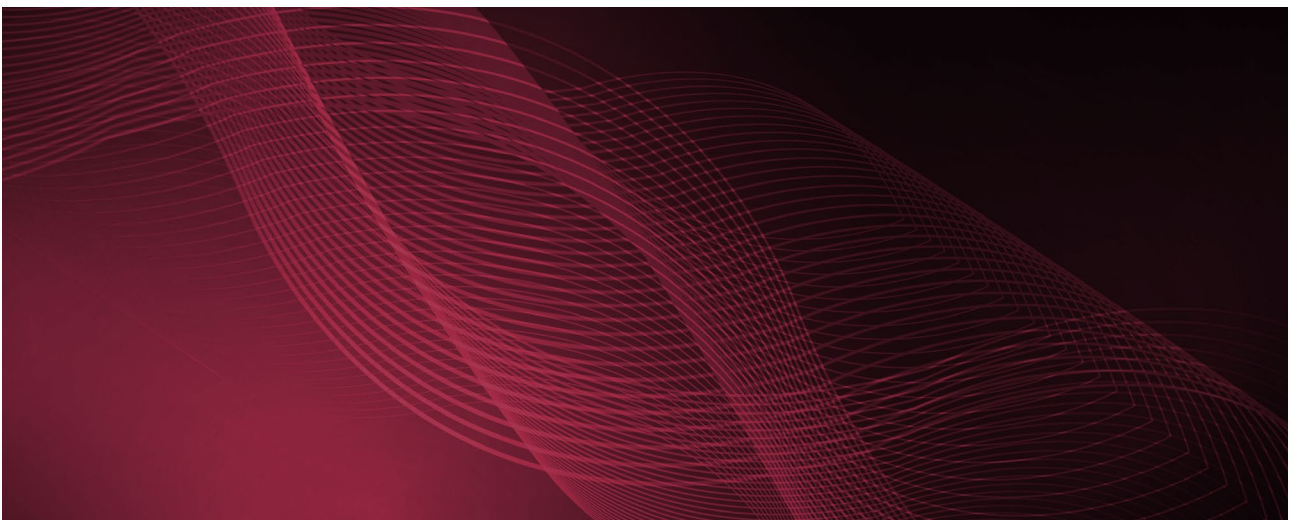
While major community platforms may pose real threats to established banks, smaller fintechs can be valuable strategic partners.

LET'S CUT TO THE CHASE OF DIGITIZATION

While everyone is hyped by digitization, choosing the right initiative is key. Close alignment of the overall business and technology strategy is essential to the success of a digital transformation. However, initiatives must have a sound business basis in order to keep up with the clients' expectations – and to hold off competitors.

TECHNOLOGY - NEW HORIZONS

Technological innovation is the lynchpin that is causing the transformation of the financial services industry. While technology has always evolved rapidly, the last few years have seen an exponential development, especially in the area of data analytics and flexible connectivity.

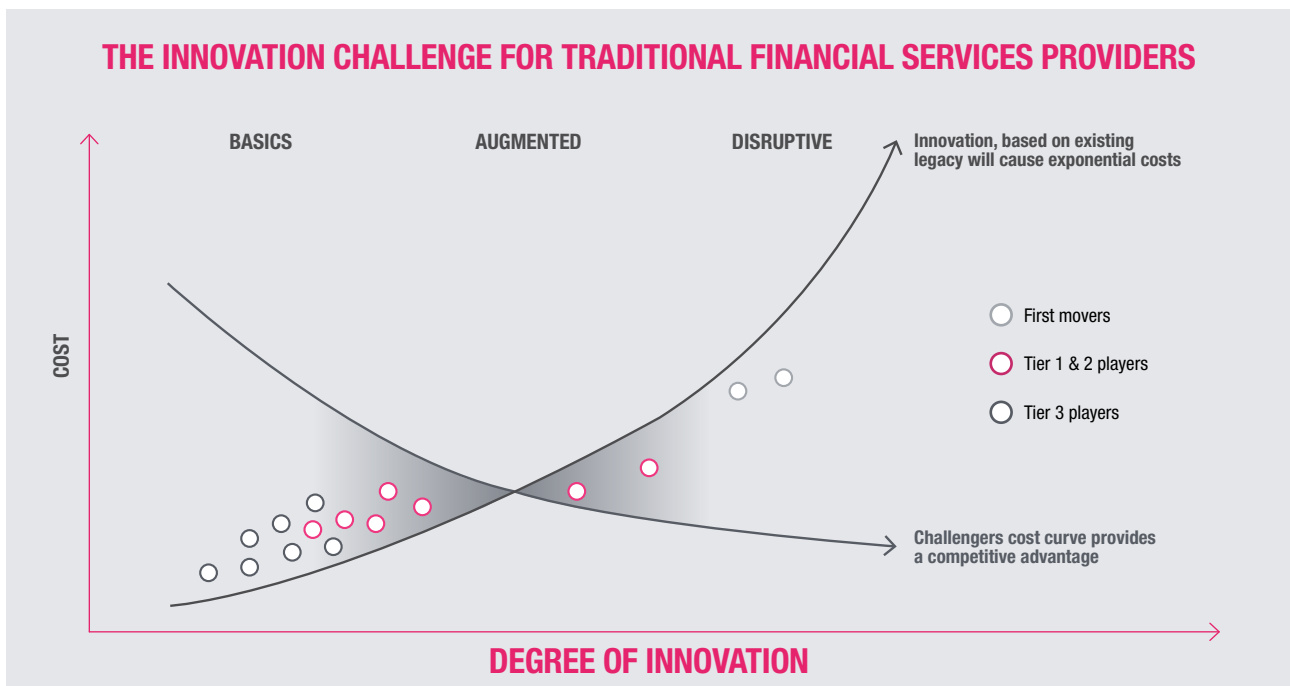


THE INNOVATION CHALLENGE: COSTS APPEAR TO BE EXPONENTIAL

When starting the innovation journey, most established players are confronted with the same challenge: because they are tied to outdated infrastructure, their digital transformation will come at very high cost, while challengers and disruptors who are just entering the market have a competitive advantage; they lack outdated infrastructure that will hold them back, and are

therefore able to create state of the art platforms from scratch that are flexible and more easily adaptable to industry change.

Most established institutions are really struggling with this challenge. Lost in complexity, we see them fighting the symptoms of the problem rather than curing the root cause(s).



Banks generally try to overcome the innovation challenge in one of three ways:



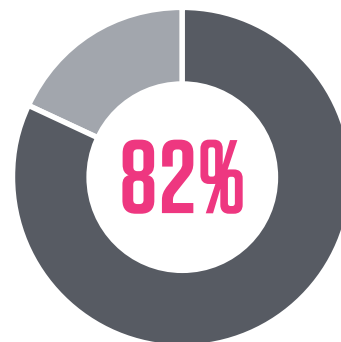
1. IMPROVE YOUR LEGACY

Improving legacy infrastructure is the most obvious solution to the innovation challenge and, not surprisingly, most established players are focusing on building-out or cleaning-up their legacy systems. Improving the client experience, digitizing key processes front-to-back and using robotic process automation represent common pillars of this strategy.

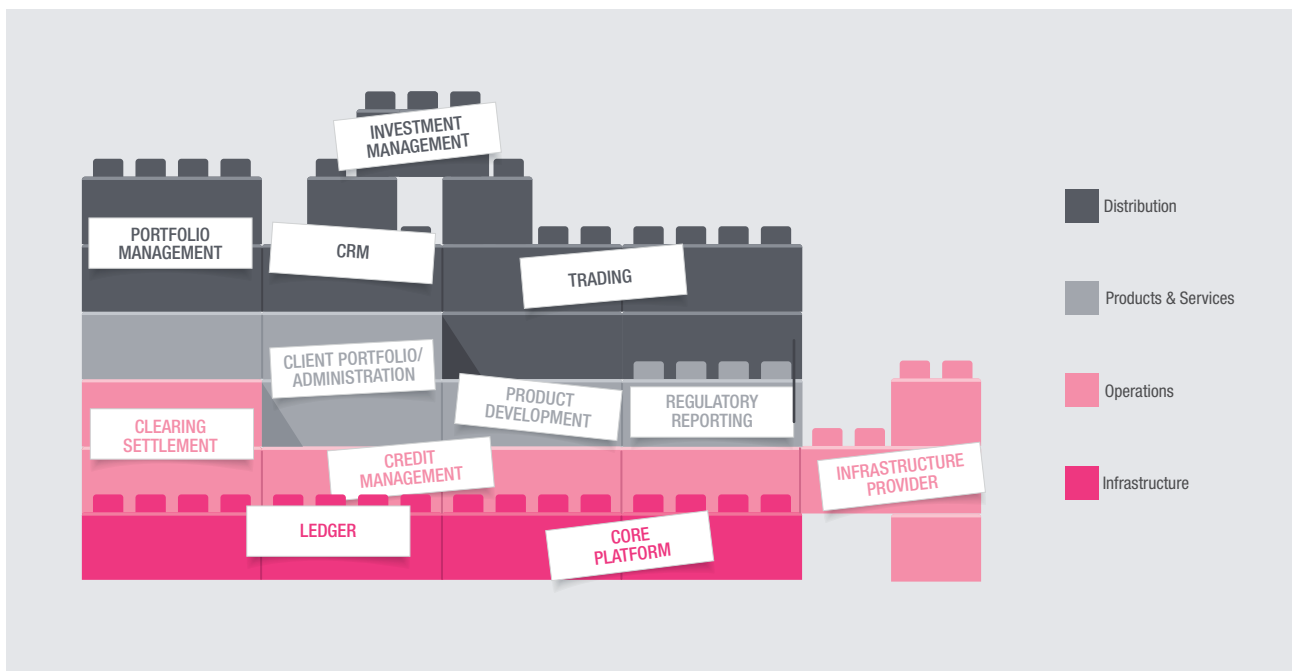
However, truly transformational offerings, like the smart use of customer data to support a proactive customer experience, divisional cross-selling or flexible connections between financial services providers, prove to be difficult with this strategy. Investing in the core is a viable option, and still the most chosen route, but this should be part of a broader digitization initiative.

Looking at other industries, relative investment into legacy systems versus new build is significantly lower, reflecting the limitations of this strategy.

Percentage of Innovation Budgets Dedicated to Updating Legacy Infrastructure



Current investment focus remains on improvement of legacy infrastructure



2. BUILD SOMETHING NEW

Build a bespoke offering to ensure best-fit and successful delivery, rather than shoehorning an existing offering into a legacy system. This approach can especially be observed in the retail banking space. As intuitive self-service and strong brand recognition become more and more important to clients, this can indeed be a successful innovation strategy. The ambition for established banks will be to provide and maintain an intuitive state-of-the-art client experience within selected and impactful services.

The shortfall of this strategy is an almost exclusive focus on client experience and therefore no contribution to front-to-back efficiency. Typically, the services are only substitutions of the existing value proposition and are often integrated with the legacy back office systems. It remains a significant challenge to reduce existing complexities and, ultimately, to replace the legacy.

As clients expect a solution-centric, uncluttered service offering, being open to partnerships and exchanging data and services with other providers in the industry will become a competitive advantage. This can't be fully realized by building something on top of an outdated infrastructure.

Key client expectations



Intuitive client experience



Financial risk profile



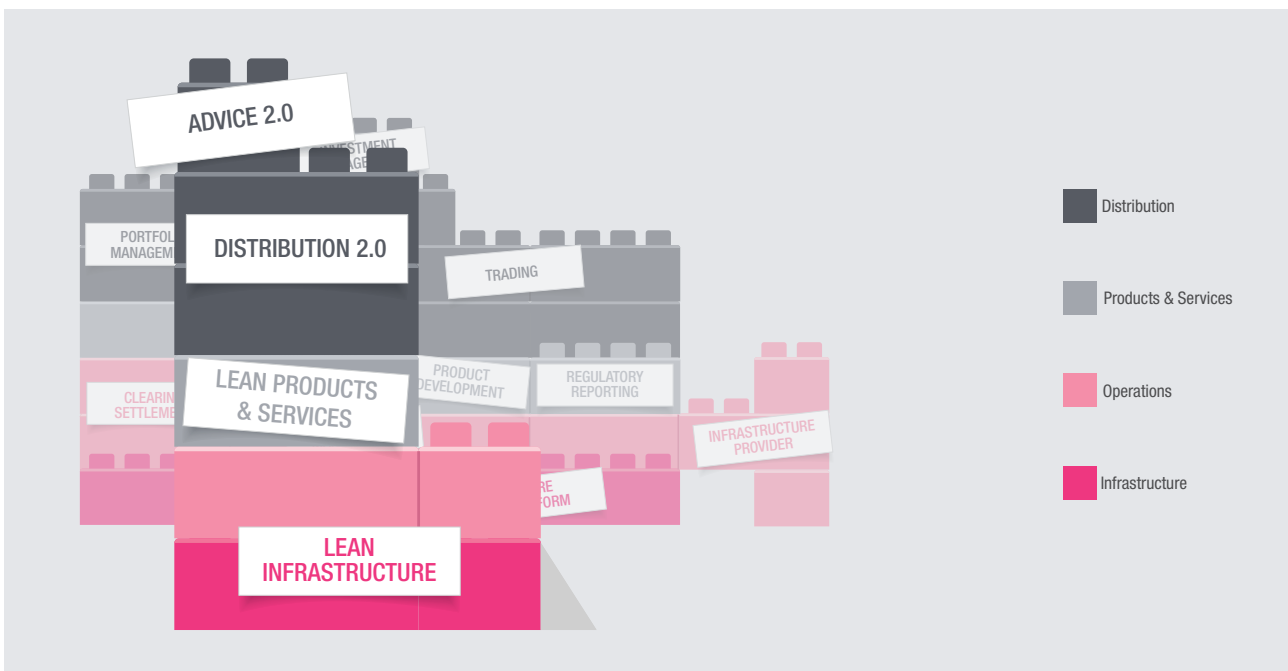
Brand Recognition



Investment performance



Holistic wealth management proposition



3. OPEN UP PARTIALLY

Partially open banking is probably the best way to describe the current trend, which has two perspectives. On the one hand, more and more financial institutions are moving away from a model where almost all products and services are created and distributed by the institution itself. Strategic partnerships with other institutions are established and alliances with new players are formed to outsource certain elements of the value chain. On the other hand, many established players identify best-in-class in-house services as white-labeling opportunities that can be provided to the wider industry.

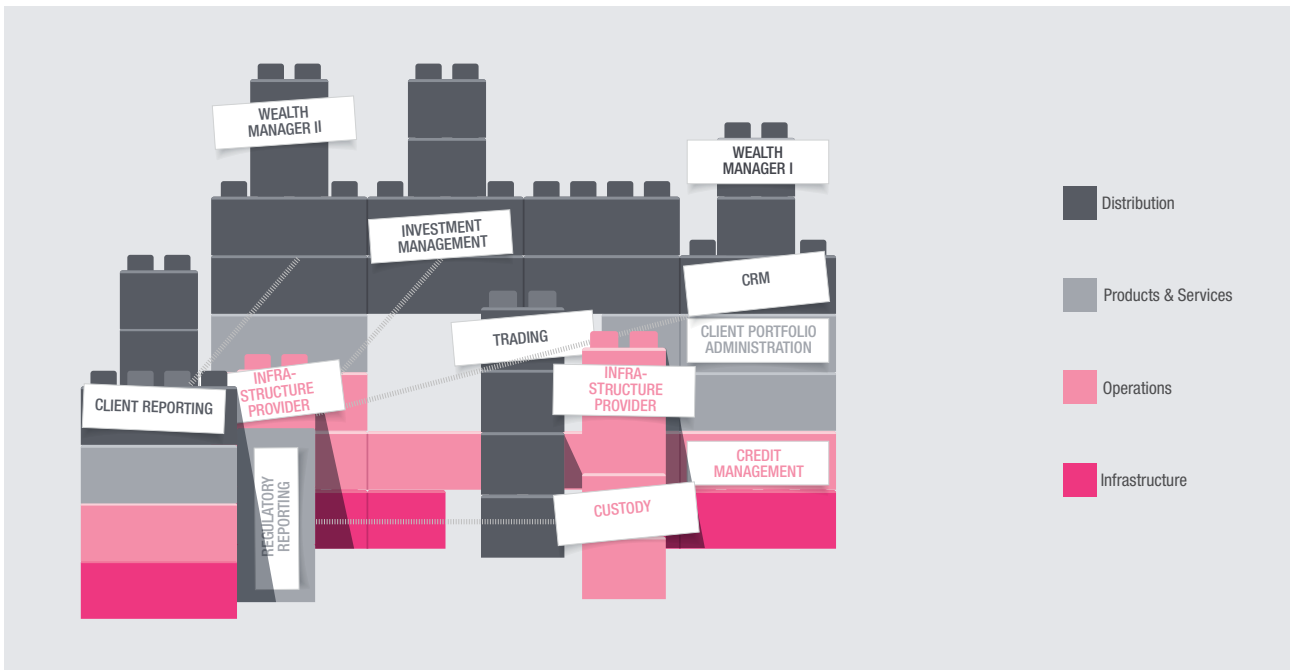
These two dimensions provide a platform for true partnerships between financial services institutions and will enable the participants to focus on their core strengths. Application programming interfaces (API) enable banks with various levels of technical sophistication to distribute data and services and connect to clients efficiently. In the near future, banks will have to

adapt their infrastructure to work effectively through these APIs, overcoming the limitations of legacy core systems.

As soon as these partnerships are established, incumbents can collaborate securely with challengers to develop their products and service offerings. As a result, they win new business by promoting and proving the value of innovation to their customers, and delivering best-in-class products and services – while remaining within sensible limits of cost and risk exposure.

\$40bn Has been invested in fintechs over the last 4 years by vc funds and large financial groups

59% Of Swiss financial institutions partner with fintechs



AND THE PATH AHEAD: OPEN BANKING – ARE WE READY FOR DISRUPTION?

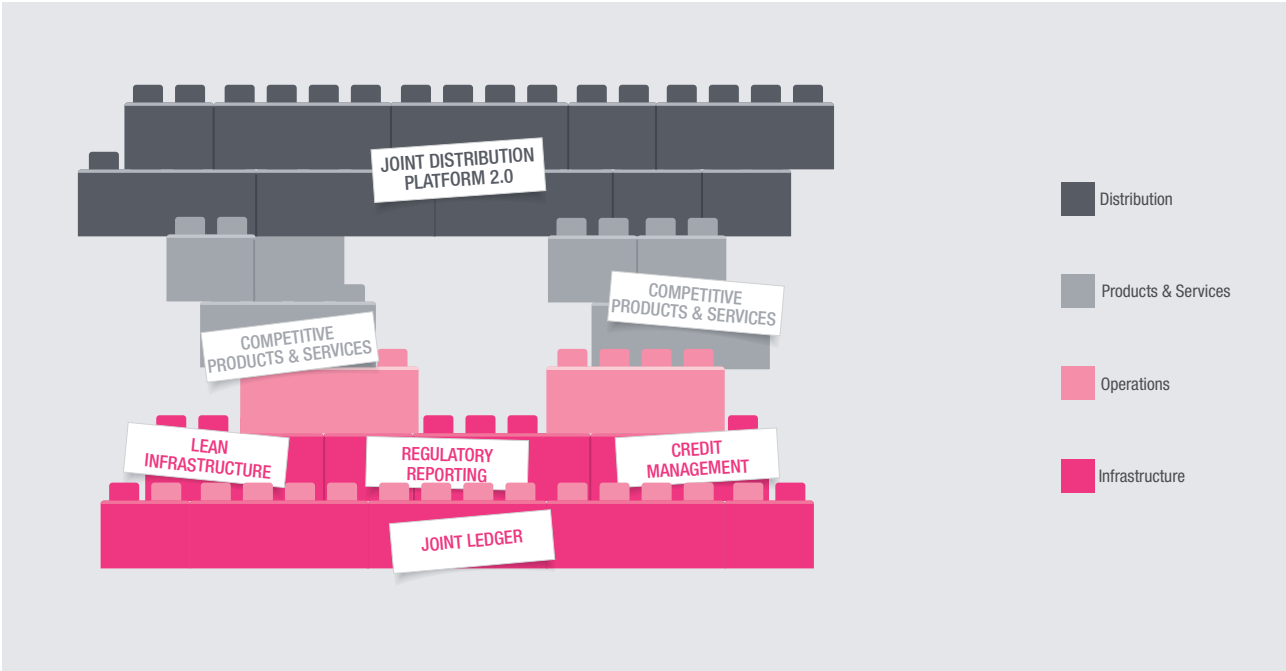
All the mentioned trends have one thing in common. The banks continue to remain independent by insourcing certain products or services from other partners in the ecosystem. These partnerships remain opportunistic rather than strategic and won't lead to a disruptive financial services industry. But what would happen if the industry moves to a truly open model where the traditional banks can no longer operate? We see some concrete options for future models:

Distributed ledger technology (DLT) is disrupting how information is stored and distributed. It can serve as a common banking

ledger that provides banks with seamless access to a standard set of data and services with a real potential for cost optimization and efficiency gains.

A joint distribution platform provides clients with future-proof access to banking products and allows for a comparison between offerings.

Assuming these synergies, financial institutions can focus on their true differentiating features which leads to a new generation of banking.

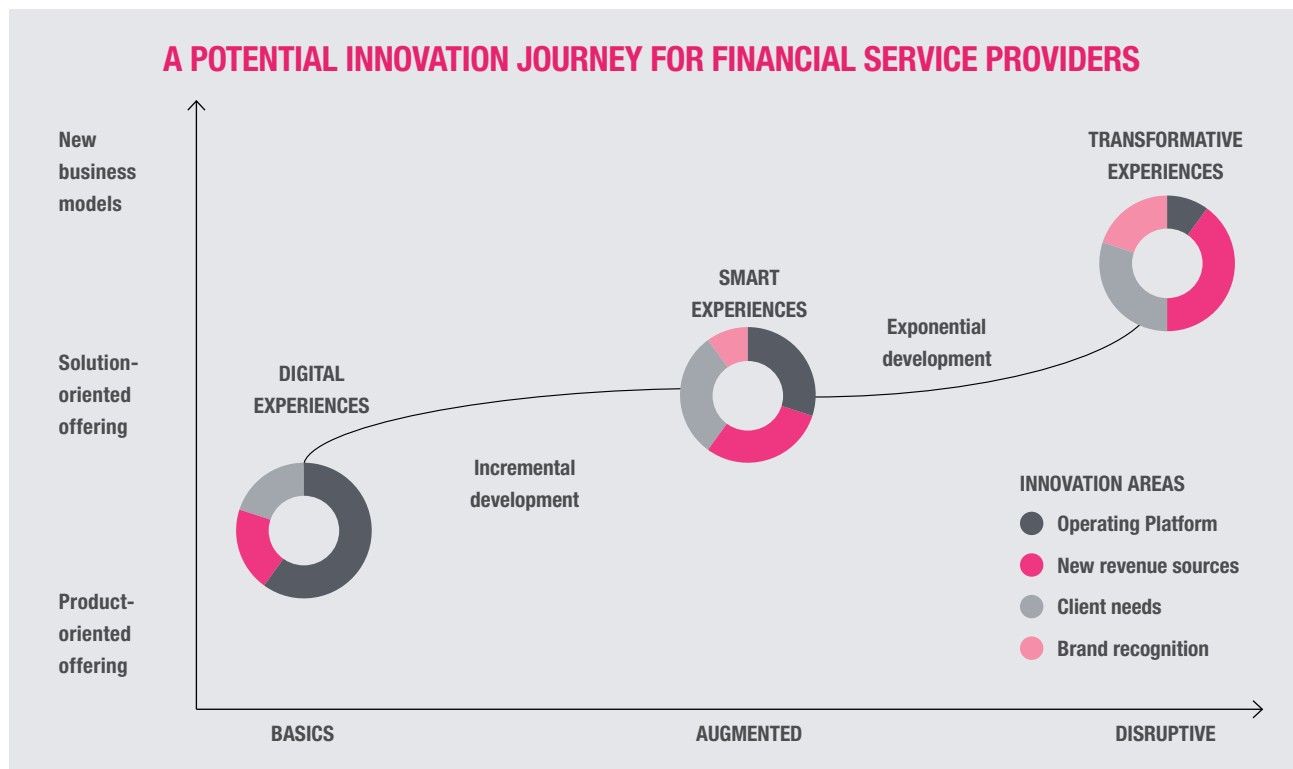


THE TYPICAL TRANSFORMATION PROCESS: THREE PHASES OF INNOVATION

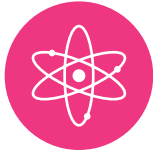
Regardless of which option banks choose, all institutions are at some point on the journey of a three phased innovation process. The process considers not only renewing technical infrastructure, but must also holistically cover client experiences and the discovery of new revenue sources. Typically, it starts with increasing the digitization of existing processes and ensuring an increase in cost efficiency. The second step should allow for customers to be impressed. Using data in a smart way, being proactive when advising the client and cross-selling products and services across divisions must be the ambition. Thirdly, it is unlikely that only a few players will open up and participate in a true ecosystem where customers' needs are the key focus.

We at Capco want to be an enabling part of this journey. We want to leverage our extensive industry expertise to support banks in the definition of their future business strategy, definition and implementation of transforming banking products and the cultural transformation that lies ahead of them.

The financial services industry will fundamentally change over the course of the coming years and we are committed to ensuring it moves in the right direction for all involved parties whether these are the stakeholders of the banks or – even more important – their biggest asset, their clients!



CAPCO DIGITAL SERVICES & CAPABILITIES



INNOVATION LAB

Bringing together our technical, data, design and deep domain expertise, with our partner ecosystem to help clients create solutions that push the boundaries in Financial Services.

Located in New York, Chicago, London and São Paulo.



CONSULTING

Our 3-phase user-centric method drives seamlessly from explore to launch, with the solution continually evolving. It is agile and iterative, time to market is fast, and delivers solutions that are right for clients and their users.



ASSETS

Providing clients with out-of-the-box digital solutions that they can rapidly deploy effectively at scale.

RESEARCH

Our best-in-class PhDs and partnerships with top universities and academic institutions help clients stay on top of the latest thinking, and turn these into invaluable insights.

PARTNER ECOSYSTEM

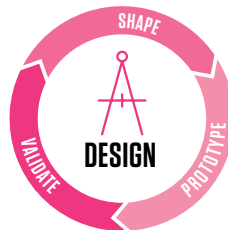
Capco's vast ecosystem of technology partners means that our clients can choose best in class tools to accelerate their businesses.

RAPID PROTOTYPING

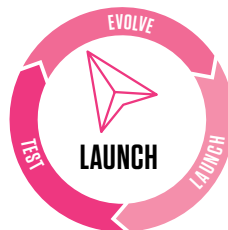
Turning hype into reality by delivering POC's and prototypes that adopt new trends and disruptive technology, and enable clients rapidly test and iterate to deliver value early on.



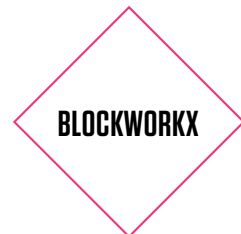
We set the vision



We design the possible



We build the solution



CONTACT

GENEVA

Pierre Rouzaud, Partner

E pierre.rouzaud@capco.com

M +41 792 66 44 11

ZURICH

Nils Reimelt, Managing Principal

E nils.reimelt@capco.com

M +41 79 135 85 22

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at www.capco.com, or follow us on [Twitter](#), [Facebook](#), [YouTube](#), [LinkedIn](#), [Instagram](#) and [Xing](#).

WORLDWIDE OFFICES

APAC

Bangalore
Bangkok
Hong Kong
Kuala Lumpur
Pune
Singapore

EUROPE

Bratislava
Brussels
Dusseldorf
Edinburgh
Frankfurt
Geneva
London
Paris
Vienna
Warsaw
Zurich

NORTH AMERICA

Charlotte
Chicago
Dallas
Houston
New York
Orlando
Toronto
Tysons Corner
Washington, DC

SOUTH AMERICA

São Paulo

WWW.CAPCO.COM



CAPCO | DIGITAL