



# How to capture opportunities in disruptive banking and insurance

A vision for Switzerland across six key areas





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## Introduction

The financial sector in Switzerland faces significant transformational forces and challenges. Traditional banks and insurance companies must undergo major changes to stay relevant and keep their market share. At the heart of this transformation are the changing needs and expectations of customers, as well as emerging technologies.

To shed light on these developments, PwC Switzerland has written this whitepaper based on many of our clients' transformation projects. In countless interactions and discussions with clients, academics and industry experts, we were able to identify six trends that are shaping the Swiss financial services market. Banks and insurers need to address these trends, define strategies, and create new and adaptive business and implementation roadmaps. This paper not only defines these key trends, but also shows ways to deal with them. The most important conclusion is that disruptive change not only brings challenges, but also presents great opportunities.

The paper focuses on changing customer needs and how to react to new and disruptive market players. It looks at new partnerships and ecosystems that can play a crucial role in meeting current and future demands. Digitalisation and emerging technologies are a given in this transformation, but employees should not be left behind either; new ways of working, alongside new skills and capabilities, will be crucial for the future. Last but not least, regulatory changes are an important driver for transformation; for example, the increased focus on sustainability in investments puts established risk management processes in a new light.

This whitepaper gives insights into our findings and provides action guidelines for your own strategy for each trend. We wish you an informative and interesting read.

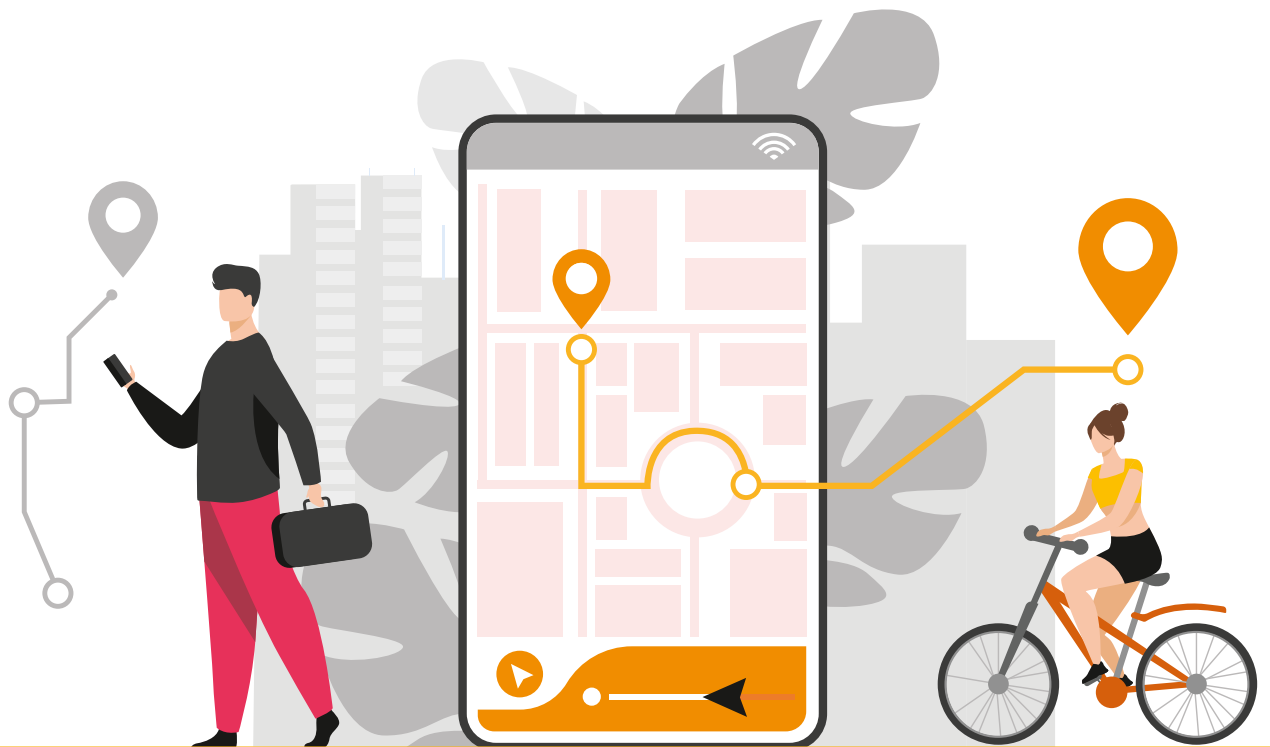
# 1

## Emma is looking for a new financial service partner

### Emma, 34 years old

Emma recently moved to Switzerland after marrying her Zurich-based fiancé. She works at a global tech company in Zurich, is digitally savvy and wants to update her insurance contracts. For her new life situation, she is seeking a financial partner that is both modern and has a broad product range, including digital service offerings.





## Emma's onboarding journey

### Customer satisfaction

Emma and her husband compare their existing bank and insurance partners to find the most convenient way to manage their new needs as a couple.

### Initial profile – anonymous

To get a better insight into all available options, Emma visits [comparis.ch](#) for an initial overview of banking and insurance providers and offerings in Switzerland.

### Marketing activity reaction

A few days later, a bank advertisement pops up on Emma's screen. Not having selected a bank yet, she clicks on the ad to check the offer for young professionals and the onboarding process.

### Enrichment and personal interest

Visiting the rather attractive website, she likes the broad offerings and wants to learn more. As a result, she submits her name and information to be contacted by the bank.

### Nurturing – connecting

Emma gets a call, where she shares about her new life situation, including her and her husband's needs. After the call, the bank's client advisor sends her a follow-up email and suggests a personal meeting.

### Nurturing – understanding

Emma gets a personalised SMS confirming the meeting. It also informs her of the benefits resulting from the bank's partnership with the insurance company her husband uses.

### Nurturing – supporting

On the day of the meeting, Emma receives a personal reminder email with all the relevant details: her contact person, the address of the location and how to get there. She has a successful meeting with the advisor.

### Decision and onboarding

At home, Emma evaluates the offer. She likes the bank's app and the digital interfaces. On top of that, she is happy about the partnership with the insurance company which provides her with additional benefits. Emma decides to go with this bank and downloads the app to her phone.

# 2

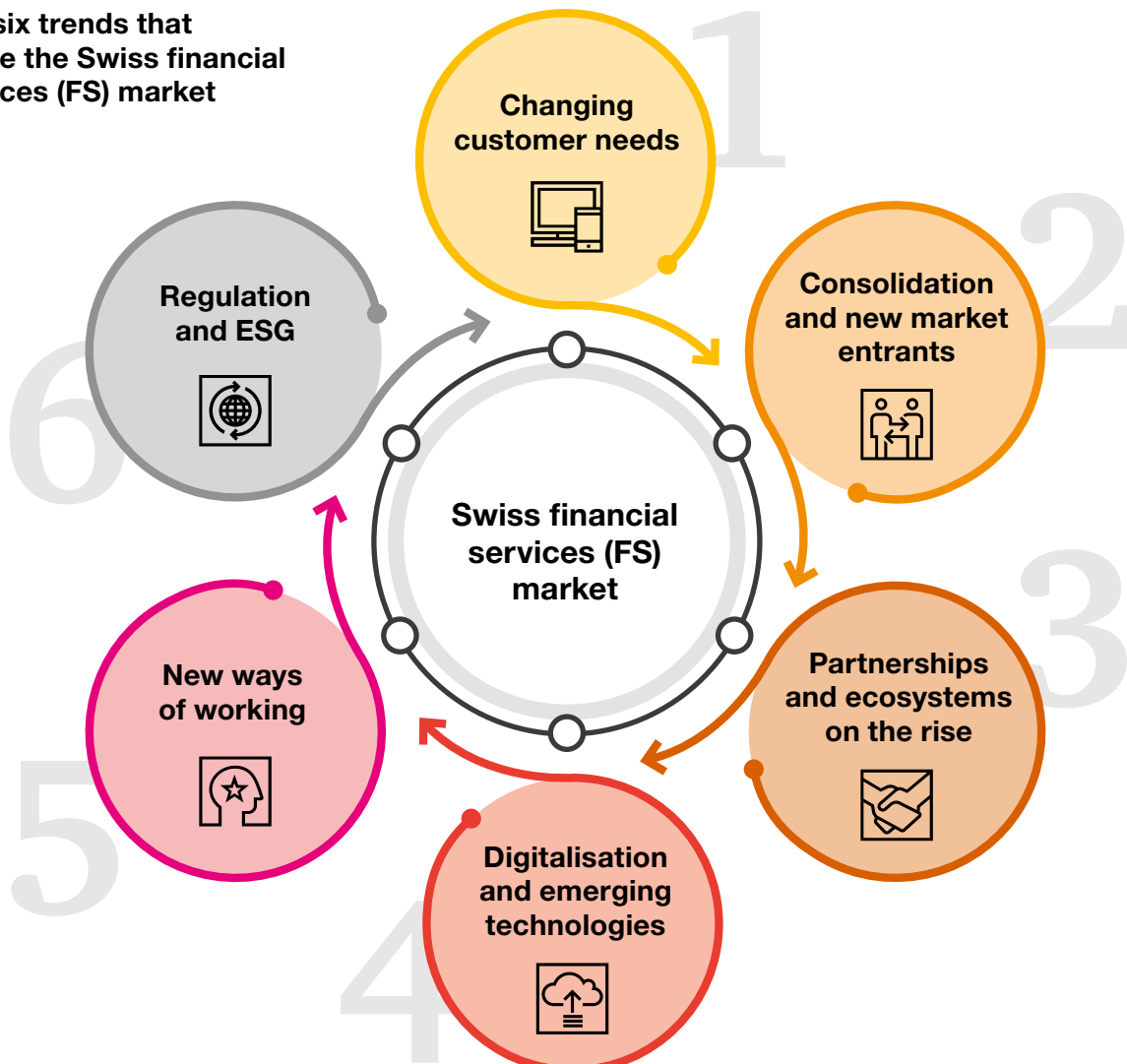
## A critical time to act

Fast-changing customers' needs had already put banks and insurance companies in Switzerland under pressure before COVID-19. But while banking and insurance businesses have not been heavily impacted by the pandemic, their digital transformation has accelerated throughout the pandemic thanks to a shift in the way people want and need to conduct their work-related and personal business. Putting the customer at the centre of a product and channel optimisation has become essential. In addition, mutual interaction of competition gives banking and insurance clients more freedom of choice, and they shape and drive all the changes. With this in mind, regulators are protecting customer needs by introducing new directives.

A look at the recent past shows that, for instance, the brokerage business has come out of the crisis ahead, but more defaulting credits may have a delayed negative effect in the mid-term. For Swiss insurers, the prolongation of low interest rates led to a stagnation of returns on their investments (ROI), and, consequently, to further margin erosion for banks. Despite numerous cost containment efforts combined with the failure to increase asset productivity and fees, the cost income ratio (CIR) remains too high for many Swiss banks.

In this new environment, banks and insurers are facing major challenges – and it is a critical time to act. But among the current threats there are many new opportunities. PwC has identified six trends that are shaping the Swiss financial services market. This whitepaper gives insights into our findings and provides action steps for each trend.

### The six trends that shape the Swiss financial services (FS) market





## 1. Changing customer needs

- New customer needs are all about convenience, problem-solving, experiences and emotions, individualisation and a seamless omnichannel journey.
- The digital natives Gen Y and Gen Z now have income and they demand digital product offerings, including user-friendly and sophisticated apps.
- This leads to a major shift towards online and hybrid products and channels.
- The new generations of customers require new products and services: digital assets, need-based product bundles (bancassurance) and ESG-driven solutions.



## 2. Consolidation and new market entrants (big tech, fintech)

- The pressure on margins and ROI calls for larger market shares and leads to consolidation.
- Some incumbents with no or limited differentiation characteristics face a general lack of trust in their brand; customers feel they offer unattractive rates and are charging too many fees.
- Targeting specific customer segments and/or offering better, user-friendly tools (e.g. Yapeal, Neon) is challenging for many financial institutions.
- Big tech is stepping into the financial services market, e.g. Apple Pay or Google Plex. With their strong ecosystem and tech capabilities, they are able to provide highly competitive offerings; at the same time, they support incumbents in their service delivery.



## 3. Partnerships and ecosystems on the rise

- In the future, partnerships and ecosystems will play an increasingly important role in satisfying customer needs.
- Entering partnerships with players from other industries, for instance mobility and travel, may attract and retain customers (B2B2C).
- Partnerships with fintech and technology companies are becoming necessary for service delivery (e.g. plug-and-play functionality and white-labelling).
- Ecosystems play three essential roles: they are enablers, realisers and orchestrators for the partnerships banks and insurers aim to target.



## 4. Digitalisation and emerging technologies

- The accelerated digital transformation of all industries demands an even faster adaptation and implementation of emerging technologies.
- This entails an increase in both the efficiency of existing business models and the creation of new business models.
- Lightweight, cloud-first digital architectures are of the utmost importance to provide better services through emerging technologies.
- Insurers should use AI-based tools to evaluate risks, improve their client and authentication services, and boost cross-selling.

## 5. New ways of working

- On their transformation journey, financial institutions shouldn't forget their workforce.
- Companies need to rethink their organisational setup, considering more adaptive structures and value streams etc.
- A higher dependency on digital tools, distributed teams and working from home is the new normal.
- Innovation in the front and back-end of a financial services ecosystem reduces, automates and optimises processes which previously needed to be operated by employees. This entails the opportunity to upskill the workforce and/or focus on new capabilities and a leaner organisation.



## 6. Regulation and ESG

- The regulation in the financial industry takes up even more speed, and ESG issues are at the forefront of regulators' agendas.
- Regulatory developments remain a key driver of transformation.
- ESG has moved from niche to mainstream and has entered the mindset and the investment decisions of many stakeholders; clients and investors increasingly require sustainable solutions and products with an environmental and social impact.
- ESG products pose a challenge for established risk management systems and processes; as a result, additional capital requirements aiming to incentivise 'green investments' may be required.



One thing upfront: to stay relevant, banks and insurance companies can either focus on their existing business model by aiming to be leaders in scale, value, customer experience, products and services; or they can strive to evolve their business model by becoming creators, manufacturers, value aggregators, distribution experts or segment players – and by providing banking as a service provider and leader. It is indeed a critical time for the financial industry to act.

### What about other countries?

The PwC study on the success of front-office digital transformation (FOT) in different industries and countries ('The Leadership Edge') shows that France, Germany and the US tend to be more traditional when it comes to digital enablement, with webinars and videos being the main offerings. Switzerland, the UK, the UAE and Italy are more innovative, with experience-based learning topping their list of activities.

Companies in larger European markets, such as Germany and the UK, consider their front-office transformations to be the most successful, with 66% and 60% of respondents, respectively, claiming their FOTs were successful. This compares to only 39% in the Netherlands, which suggests inconsistent levels of maturity and cultural acceptance of transformation across regions.



# 3

## A vision for Switzerland across six key areas



### 1. Changing customer needs

Responding to the needs of the ‘new customer’ means evolving from a bureaucratic process provider to a problem solver that delivers experiences, emotions and customisation – seamlessly and across all channels.

#### **Move towards online and hybrid channels – but not completely**

In recent years, the traditional banking and insurance business has shifted strongly towards digital channels due to efficiency and cost pressures. This development has been significantly accelerated by the pandemic.

Originally, the big banks UBS and Credit Suisse started the trend, followed by mid-market players. On the insurance side, there is a lot of potential for the digitalisation of business models with omnichannel strategies, whereby insurers can offer pure online brands such as Allianz or Zurich, or even replace the general agency with an online provider like Clark. Fintechs such as Revolut, N26, Neon or Clark are currently taking over the direct point of contact with the customer – leaving banks and insurers with a purely executive role.

Even though the business is increasingly moving towards a hybrid model, physical branches still play an important role in the Swiss environment, especially for older clients. Many mid-sized banks and insurance companies need and want to maintain a more mature customer base for whom branches are still relevant (e.g. cantonal banks, Raiffeisen, Mobiliar).

#### **Are trust and innovation a trade-off?**

How do banks and insurers maintain a good level of intimacy and trust with customers – and where should they focus on innovation? Financial institutions should invest in analysing and making better use of data (transaction data, local data, etc.) to personalise customer experiences using AI, e.g. computer vision coupled with predictive analytics. Voice analytics in call and contact centres can differentiate between the voice of a 27-year-old and a 57-year-old person, resulting in different service offerings. Video counselling can also be an efficient yet personalised offering.

However, challenges around security and regulation such as the General Data Protection Regulation (GDPR) remain, which can hinder innovation.

#### **Embrace the new lifestyles and customer experience expectations: improve your customer experience**

Customers are increasingly moving towards a digital lifestyle and expect digital processes. However, many traditional insurance or banking companies are still using processes with outdated technology that no longer meet this digital shift. Executives have long talked about customer experience being a source of sustainable competitive advantage. As the walls that have protected incumbents are quickly crumbling, action is needed now.

Tracking interactions with customers through CRM is not enough. Customer experience requires an understanding of the customer’s wants and needs. One of our studies shows that only 13% of organisations today are structured around the customer journey, with a third of companies not having a clear roadmap for their customers’ experience.

Companies need to understand the orchestration of relevant content across the right touchpoint for each customer segment. Interestingly, fully digital models such as robo-advisors have not taken off for high-touch client segments due to a lack of trust. For banks, direct access to index funds, passive management and financial planning apps means that customers have a lot of choice; to stand out, business models need to be designed in a way that delivers a differentiating experience.

In some financial services segments, especially in Swiss private banking, hybrid models are gaining ground. Services are being digitalised while the relationship manager remains the essential element in the client relationship. Overall, the customer experience is no longer a pure marketing issue, but is becoming one of the most decisive factors for corporate strategy.

#### **Insurers: scale up your digital offering to better engage with your customers**

Insurers are required to rapidly scale up their digital offerings to better engage with their customers. Thereby, small changes go a long way. Two recommendations are to switch to paperless forms, which also reduces hidden administrative fees, and to use social media channels for loss notifications.



Insurance companies need to give their customers access to the right information to empower them to make the right decisions – in the form of simple and transparent policies, combined with flexible contractual arrangements and more emotional intelligence. Timely interactions are necessary for optimising consumer engagement via the preferred channel, and consumers need to feel that insurers have their best interests at heart and are offering them pragmatic, tailored solutions, at a reasonable price and with no hidden terms and conditions. Technology and data analytics help drive

customer experience, and they are an important tool for insurers to establish better trust-based relationships with their consumers.

### Product diversification

As the classical distribution model and the corresponding speed of service is outdated for today's market, banks and insurance companies need to rethink their business models and work on their product diversification and development.

## Key trends for banks

## Key trends for insurers



### Customer experience

Because of the pandemic, financial institutions had to provide customers access to virtually all financial services through digital channels.

Banks will need to improve the speed and simplicity of their digital engagement, using data and analytics to provide proactive real-time recommendations, creating new ways of engagement, customer care and value-added ways to make a consumer's life easier – even beyond financial services.

The rising bar for an optimal customer experience across all industries is also raising expectations for products and services in the insurance industry, which is still very product-driven.

Integrating non-insurance products to increase the value of standard insurance products will become a more integral part of addressing evolving client needs.



### Business model

Banking generally profits from three main sources: net interest margin, interchange and fees. In today's digitalised environment, even non-traditional financial institutions and fintechs become lending and leasing companies. They offer peer-to-peer lending solutions as well as underwriting and landing platforms using machine learning (AI) technologies, providing financing at lower rates compared to established financial institutions with a direct impact on margins.

Fintechs like Revolut and TransferWise have disrupted the market with international money transfer services, credit and debit card payments and commerce. We expect these companies to increase their customer base by another third by the end of 2021.

The development of the Banking-as-a-Service (BaaS) model, across the entire financial services industry, is facilitating value creation as well as value exchange between both financial and non-financial entities, with the consumer being the primary beneficiary.

Product development must be done using agile methods and based on customer needs, not by an actuarial machine. By moving from a product-centric to a customer experience-centric approach, insurers need to reduce complexity in their products.

Customers and distribution partners demand more flexibility and speed in product development, as well as shorter iteration cycles.

Change in product development is becoming the new normal for insurance companies with the ambition to deliver cutting-edge products and customer experiences.

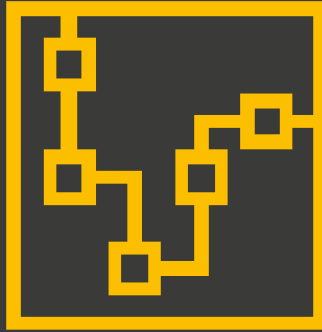
In addition to customer trends, regulatory requirements also pose challenges for product development.



### Ecosystem

As banking becomes more embedded in customers' lives, traditional financial institutions will face the challenge of remaining at the centre of the ecosystem.

Ecosystems and partnership distribution are driving embedded insurance products and breaking down traditional silos thereof. This requires product innovation to collaborate with adjacent industries and increase the attractiveness of products.



# The blockchain has pros and cons

Due to the growing demand, both fintechs and established financial services companies have introduced various blockchain-based offerings in Switzerland and Germany over the past five years. These crypto finance products and services offer a value proposition for retail, private and corporate banks in five areas:

- 1. Custody** – custody of cryptocurrencies and digital assets or their ‘private keys’ for clients.
- 2. Trading** – active trading in cryptocurrencies and digital tokens/assets on behalf of customers (execution only).
- 3. Investment strategy and consulting** – robust strategies for investing in cryptocurrencies and digital assets for investment advisory and asset management purposes.
- 4. Initial coin offerings** – accompanying initial coin offerings and token generating events (ICOs/TGEs), and custody of investments and investment funds, including escrow.
- 5. Business accounts** – providing payment accounts for blockchain/crypto companies, including KYC/AML auditing of incoming and outgoing payments.

Benefits for established companies adopting crypto finance offerings:

- **Access to new attractive customer segments in the crypto sector:** wealthy and young individuals within the crypto ecosystem (e.g. crypto executives and entrepreneurs) can be acquired as new potential customers.
- **Extensive sell-on and referral potential:** advisory model as a basis for sell-on potential of traditional investment products.
- **Key differentiator from the competition:** only a limited number of established banks are active in the crypto ecosystem.

Potential risks for established companies adopting crypto finance offerings:

- **Reputation among customers:** crypto offerings may irritate or scare off existing conservative customers; uncertainty could lead to loss of trust and even withdrawal of funds.
- **Reputation among the public:** a potential scandal, e.g. related to a fraudulent ICO or money laundering, could result in severe reputational damage.
- **Regulation and authorities:** in the course of crypto offerings, banks may come under increased scrutiny by FINMA or foreign supervisory authorities; risk of tax evasion and an associated confrontation with foreign states and governmental bodies, e.g. in the USA and EU.
- **IT security and infrastructure:** cryptocurrency wallets can potentially be hacked (cyber risk); a bank’s own new and complex infrastructure could fail.
- **Operations:** human risk, especially related to the custody and transfer of crypto assets between different wallets; lack of experience of employees with new processes.
- **Outsourcing and partnerships:** when working with partners, there is a risk that the partner’s infrastructure or operations may fail (which in extreme cases may lead to loss of assets).









## 2. Consolidation and new entrants (big tech, fintech)

### Address the new competition smartly

Lower barriers to entry and changing perceptions of banks are encouraging new players to enter the financial services market. It is therefore no surprise that the financial services industry, encompassing both the banking and insurance sectors, is in a state of progressive change, driven primarily by competitive pressure from the engagement of techfins and fintechs seeking to offer more value-added and overarching financial services.

The threat from new entrants in the financial services sector seemed low when one thought of the barriers to entry, such as compliance with regulatory as well as authorisation requirements, the amount of capital required, the length of time it takes to build a significant brand identity or access to financing. However, the progressive lowering of regulatory barriers to market entry (see chapter 'Regulation and ESG') and the changing perception of banks, insurance companies and other financial intermediaries have fundamentally changed the picture. They are new drivers, and financial incumbents must respond to growing competition in new ways.

### Learn from fintechs

Fintechs are fast-moving disruptors and they have shown us that it is no longer difficult to penetrate the financial services industry. With their strategic focus on specialised products and/or processes, they gained significant market share, threatening various business areas of established banks.

They target specific customer segments and attract an ever-growing number of new customers with the help of their more efficient and user-friendly tools. In Switzerland alone, the number of fintech start-ups has risen from 28 in 2016 to 170 today, and their success rates position them as the strongest competitors to traditional financial service providers. With their strong ecosystems and advanced technologies, they have significant power to reshape the financial services industry as a whole and transform an already disrupted market.

Particularly in Switzerland, where a long tradition of financial services is being upgraded with more digital innovation, the changes to the Banking Act are creating an even more welcoming situation for new fintech business models with ideal regulatory conditions. The fintech licence brings along additional opportunities for fintechs in Switzerland as laid out in a recent publication, where there is special potential for fintech companies that provide bank-like services but refrain from classic core banking activities (in particular interest margin business) and, thus, are only subject to bank-specific risks.

## To be, or not to be

"Banking is necessary, banks are not," said Bill Gates in 1994. His statement is haunting us more than 25 years later as we ask ourselves whether banks as we know them are dying and what the right market response should be.

### Consider consolidation

Against the background of the increasing competition, financial services providers need to grow to compete with other banks – in addition to looking for profitable business in the low interest rate environment. Thus, for some banks, the pressure to survive goes hand in hand with a lack of scale and a market environment that makes it difficult to generate growth or make the necessary leap in productivity.

The struggle to invest and the fear of falling further behind the market in terms of innovation, growth and service levels led to a revival trend through consolidation. While financial services companies were reluctant to chase cost or revenue synergies in the past due to high complexity, the focus on a long-term view has proven to be a motivating factor in driving greater levels of consolidation today.

Market participants are motivated to deliver more value to customers and strengthen the profitability of their business. The European Central Bank is committed to promoting consolidation and will use its supervisory tools to facilitate sustainable consolidation projects. Such projects must be based on a credible business and integration plan, improve the sustainability of the business model and adhere to high standards of corporate governance and risk management. In this sense, we see an immediate reaction in the direction of intra-market consolidation, which would shift to a cross-border level in the future.



### 3. Partnerships and ecosystems

#### Enter partnerships and build ecosystems

Today, customers have more choices than ever before. Observing the current developments in the saturated Swiss financial services market shows that finding the right strategy for the future is still a challenge for many corporates. Attracting new customers is proving difficult and, given the high acquisition costs, the question of how to sustain the business is a top priority. Analysing areas of growth is still on every organisation's agenda, but it has become less important. Nourishing the relationships with the existing customer base, on the other hand, has never been more essential. Entering partnerships and building ecosystems enables companies to better meet customers' requirements and drive innovation.

This also became clear in our recent global survey 'The Leadership Edge', where we learned that customer-centric objectives, such as delivering better customer service and support (stated by 53% of respondents) and driving better customer satisfaction and retention (52%), are among the most important objectives for companies. Revenue-generating activities, such as acquiring new customers (2%) and identifying new prospects (1%), rank among the least important.

#### Combine convenience at low costs with brick-and-mortar customer relationships

Online banks, often referred to as challenger banks, provide convenience at low costs. It is not surprising that they attract more and more customers seeking new partners for everyday services. Neon, the Zurich-based online bank founded in 2019, developed into the market leader within one year and already has more than 40,000 clients.

Challenger banks promote themselves with online, user-friendly and quick processes. However, brick-and-mortar banks have a clear advantage when it comes to customer service, as they are better positioned to establish strong and intimate relationships with customers. By adopting a more customer-centric value proposition, organisations have the opportunity to redefine themselves and to gain a strong position in the market. Enterprises need to answer the following questions: Why are my clients with me? What does my customer base look like? Where is my potential? What is my strategy going forward?

#### Put the customer centre-stage and collaborate

The big players have realised that a collaborative response to the changed market environment can be a win-win situation for all parties involved. Partnerships between corporations and start-ups, mainly in the fintech sector, create value for both parties. Incumbents gain speed (time to market), flexibility (costs and investment) and new talent. They may also benefit from the fintech companies' customer segments, while the latter have access to additional revenue streams.

With the mission to drive innovation in global insurtech, HITS, the independent subsidiary of Generali Switzerland, learned early on that in order to make innovation even more valuable and sustainable, it had to open up and start collaborating with various new partners. With a similar mindset, PostFinance has invested in several fintech and insurtech start-ups, which allowed the company to identify emerging products, services, technologies and business models at an early stage, leveraging its customer base, skills and technology.

Other examples in Switzerland are focused on a more specific goal. Helvetia partnered with the fintech company Neon to create an innovative mobile bancassurance product. The global financial market has shown the benefits of bancassurance, and some of Switzerland's biggest banks have forged close ties with the insurance sector. UBS and Zurich Insurance, for instance, offer their customers various banking and insurance products and services from a single source and a common digital ecosystem. These companies are aware that customers often have needs that are best satisfied via different specialists, and expand accordingly. Other retail banks, such as Raiffeisen and Mobiliar, are following this trend or are expanding their cooperative strategies; they announced a partnership early this year to share resources and create additional value for customers in a common market.

When considering a partnership in an ecosystem, companies need to answer questions regarding their strategic position in the ecosystem and which core competencies they want to bring in. They must consider operative and technological challenges as well as regulatory requirements regarding data protection and privacy.



## 4. Emerging technologies

### Rethink your business model and its technical foundations

The digital transformation is not only about building new capabilities but also about future-proofing your business model. In this area, banks and insurance companies face different challenges. Middle-sized banks, such as cantonal banks, often have a monolithic technical foundation that was subsequently extended with siloed solutions. Insurance companies often only take tentative steps to introduce CRM tools or they don't use their implemented tools to their full potential. Modernising these technological foundations and IT platforms fosters efficiency and performance gains.

#### Banks

The monolithic technological foundation has grown over time. Its construction as a single unit comes with various flexibility constraints. Changes in one place entail time-consuming and costly resources to make sure that other parts of the system are not negatively impacted. Given the inertia of the monolithic structure, it is challenging to keep up with the ever-changing market trends. As a result, customer needs are often not met as required. The view on the customer stays transactional and often remains along the traditional life cycle of birth, earning, marriage, children and retirement.

To a varying degree, this monolithic technical foundation is extended with dedicated siloed solutions to address front office needs, such as sales, service, marketing, events or CRM – and the customer information often remains sequestered. Customer advisors, for instance, enter unstructured data in text fields, or lists are sent around via email while preparing events, leading to compliance risks. As long as customer information remains siloed, there is no end-to-end view on the customer, and data analytics can't be applied to its full potential.

Rethink the role of IT to be an enabler of change and identify areas where the monolithic architecture hinders this change the most. Open up your IT system landscape in the identified areas towards a more modular architecture. The increase in flexibility is a prerequisite for addressing customer needs faster.

Depending on the size of your organisation, it makes sense to use best-of-breed, standard solutions instead of building solutions from scratch. We often observe that not all existing functionalities of standard solutions are fully used. A quick win is to make use of all the capabilities of your standard solution. Once used to their full potential, you can assess where additional needs exist.

#### Insurers

Over the past few years, the insurance industry in Switzerland has recognised the need for modernising and streamlining production. The readiness to invest is there, but has so far yielded mixed results. We observe that one group of players has implemented CRM tools without using them to their full potential. The second group decided on small CRM projects, in consequence of failed bigger projects, usually caused by a lack of capacity, resources and skills. Smaller projects, such as chatbots or omnichannel solutions, often remain minimal viable products (MVPs) that don't reach the target architecture stage.

Without a long-term vision, the solutions often remain semi-automated and hence not scalable. This patchwork approach has not brought the desired benefits; on the contrary, it contributed to the overall fragmented system landscape. Think big and assess your CRM and marketing concept holistically. It might be time for a big project. Define your priorities and check if your organisation has the skills to address them.

### Be flexible with the help of strong master data management

In both banks and insurance companies, we often observe that master data management is a challenge. The same data is stored in multiple systems; and systems can't exchange data in an efficient and standardised way. As a result, adjustments to the ecosystem, such as streamlining, introducing new applications or data exchange with third parties, remain time consuming, expensive and error-prone. This hinders adjustments to the ecosystem that are needed to address customers' needs in a constantly changing environment.

For a strong master data management strategy and architecture, systems need to be aligned and actively managed to prevent a fragmented system landscape. Don't store your data in silos; make better use of it by making it available. A flexible integration layer or middleware are key drivers for a fast time-to-market in serving clients' needs. Assess if the maturity of your master data management enables the required agility.

### Use your data to create new business models

Once the scattered data is available, the foundation is laid for a convenient expanding of your business model. Advancing digitalisation opens the door to embracing new technologies and evolving into an insight-driven, agile company – and using the data you own allows you to gain an end-to-end view of your customers and understand changes in their preferences much faster. Data is your enabler to customised offerings.



Insurance companies may use AI in a variety of fields, such as risk evaluation, customer servicing, authentication services or cross-selling. Many of these services are offered by third parties and in order to use them, an efficient exchange of data must be ensured. Various services are offered in the cloud, and as long as the data is hosted in Switzerland, many insurers are open to using the cloud. Banks use the cloud often in a rudimentary way as IAAS (infrastructure as a service) instead of PAAS (platform as a service).

Omnichannel solutions mature when the customer-centric view and the holistic view of the business are combined. The more data sources you tap into and connect, the more detailed your customer insights get – and the view of your business gets more holistic with proper master data management.



## 5. New ways of working

### Don't forget your people on your transformation journey

Globalisation, digitalisation and the entry into a new sustainability paradigm not only influence customer expectations or business processes but also the organisational structure itself. Previous organisational approaches have been characterised by hierarchy, separation of thought and action as well as top-down budgeting and planning processes. None of this leads to a fast and flexible response to current market changes and competitive behaviour. And as groundbreaking customer-centric processes and advanced digital tools can be, the greatest challenge for the digital transformation – as for any change process – is the human being.

Essential to the success of your digital transformation is the willingness of everyone involved to risk the change and respond to the factors it creates. Certainly, digital transformation is about IT technologies, but it is even more so about your workforce. They need the digital skills and the right mindset to embrace change, and this mindset must be fostered and enabled from the top. What are the biggest challenges companies face on their transformation journey? They are manifold, but over time we have identified the three obstacles most of our clients struggle with during their transformation.

### Measure your progress

Whether at work or in their private lives, people want to see quick results from change. But how do you measure performance when everything's fast-moving and broken down into small bits? Hardly any company can tell whether it is moving in the right direction at the right speed and how its efforts are being perceived by customers. The remedy is a performance management system that helps to organise work efficiently in line with corporate objectives and employees.

The 'Objectives and Key Results' model (OKR), for instance, is a holistic method for managing goals and performance at all organisational levels of a company. However, OKRs are only as good as the people behind them; to ensure employee commitment, it is crucial to involve all teams and individuals in setting the company's goals. Leading Swiss insurance companies have already achieved sustainable success with the OKR method during transformational processes. Large organisations use the OKR framework not only to achieve rapid growth and process optimisation, but also as a catalyst for innovation, employee development and cultural change. OKRs link business strategies to results, encouraging creativity and allowing freedom for employees and teams to reach the agreements.

## Change your mindset

The assumption that transformation ends with the implementation of new IT tools or software is another stumbling block. The real transformation challenge is the mindset shift that needs to take place among your employees.

Transformational change triggers uncertainty and fear among many employees. The choice is not so much whether to change as an organisation, but about how to approach the transformation to secure the future viability of the company. The basis for a successful and sustainable transformation is the development of the digital mindset, which in turn is best achieved by engaging employees throughout this journey. Instead of monotonous theory-heavy training, more and more companies are turning to gamification; this can inspire employees to engage in the change rather than just seeing it as a mandatory task. Especially for complex and not-so-fun tasks, such as an in-depth training programme on new IT infrastructures, gamification can be a great motivator. Gamified trainings can even support team building and foster collaboration among departments.

## PwC likes to play

At PwC, we have been integrating gamification into our transformation process for some time. Since 2018, we have been running gamified trainings for our employees to build their skills in topics such as AI and data management. The trainings include a virtual quiz show where the employees can participate individually or as a team and win prizes. Feedback is immediate, points are awarded for good decisions in the game, and managers and employees are equally engaged.

## Break down silos and form agile teams

Another challenge we often experience in our clients' change management projects is working in isolation. Enterprise silos undermine companies' efforts to digitalise and evolve their business models by stifling their ability to innovate. Exchange and cooperation across departmental boundaries hardly take place, or only occur pro forma. The goals of the individual departments are usually not very congruent with the goals of the entire company. Innovation and efficiency can't be achieved without teamwork.

The solution to this is an agile way of working, which originated in IT software development and has since spread to various industries. It is a way of working to continually adapt to changing needs and proactively achieve meaningful renewal. Agile teams constantly reassemble, come from different divisions, like to share their knowledge, are networked and work independently. When working with our clients, we often notice how a culture of experimentation and learning from mistakes is cultivated in interdisciplinary teams. This is usually different from previously known ways of working and needs to be learned and practised.

Ultimately, adopting the new ways of working (e.g. by introducing agile working methods) requires a change in the organisational design and culture to improve collaboration and become more customer-centric. Our project experience shows that it is essential for financial services companies to think and implement their digital strategy along with a digital culture, and that this must be driven by the senior leadership in all areas of an organisation.

We recommend that the senior leadership of financial institutions embrace and promote the benefits of the new way of working. This adoption requires commitment, investment, communication and collaboration within the organisation and with clients and partners.



## 6. Regulation and ESG

### Adapt to open banking

As described in the previous chapters, Swiss banks and insurance companies have to deal with a variety of shifting factors – from changing customer behaviour and intensifying competition to technological disruption and new ways of working. In addition, regulatory developments have increased the pressure on banks to adapt their traditional business models – a trend that is here to stay.

The regulatory development towards open banking systems, for example, allows more third parties to use banking data for their own products and services, which could shrink the market share of incumbent financial institutions. But open banking could also lead to more innovation among banks.

Some regions and countries, notably the EU and the UK, have already taken the lead by creating and adopting their own open banking regulation. In Switzerland, there are no specific legal and regulatory requirements for this yet, although a growing and dynamic fintech and blockchain ecosystem has developed in the financial sector in Switzerland in recent years.

Swiss financial market law is fundamentally technology-neutral and capable of dealing with new technologies. The Federal Council currently sees no need to fundamentally adapt financial market law with regard to innovations in the front and back end of the banking and insurance ecosystem. Instead, the Federal Council has revised the existing regulatory framework to promote innovation in the financial sector and reduce market entry barriers for companies with fintech business models.

### Deal with regulation galore

Regulation is increasing, some of it raising business hurdles, others fostering competition and innovation:

- The Banking Act and ordinance have been adapted to the needs and risks of fintech companies.
- Selective adjustments are to be made to the Financial Market Infrastructure Act (FMIA) to promote digital marketplaces.
- The Consumer Credit Act was amended to address regulatory requirements for crowdfunding business models.
- The Financial Services Act (FinSA) and Financial Institutions Act (FinIA) with the corresponding ordinances have been in force since 1 January 2020 and provide comprehensive rules of conduct and a coherent supervisory regime for financial institutions – which also applies to fintech companies depending on the business model.
- A draft amendment to the Collective Investment Schemes Act is currently undergoing parliamentary consultation and is intended to enable a new fund category for qualified investors in the area of innovative products such as crypto funds.
- Finally, the FINMA Circular 2016/17 ‘Video and Online Identification’ is undergoing a partial revision to ensure the effective combating of money laundering in the environment of rapid technological progress.





# Banking Act/ordinance: fostering fintech

## Fintech regulation

Extension of the holding period for funds in settlement accounts from seven to 60 days

Creation of an innovation area in which the acceptance of deposits from the public of up to CHF 1 million is not considered commercial and is therefore possible without an authorisation (so called 'sandbox')

Simplified licensing and operating requirements for companies that accept deposits from the public up to a maximum of CHF 100 million without pursuing lending business (so called 'fintech licence')

The fintech companies covered by the regulation provide bank-like services but operate outside the core activities of banks. The services they offer are very heterogeneous and include alternative financing options (e.g. crowdfunding), algorithm-based data analyses, infrastructures for banks, payment transactions and applications based on blockchain technology, as well as activities within the scope of investment advice and asset management. These business models partly require the acceptance of deposits from the public (passive business) without simultaneously conducting lending business.

The simultaneous operation of the lending business is to remain reserved for the banks in the future. For this reason, it is not permitted under the 'fintech licence' to invest the funds received and to pay interest on them.

## Seek opportunities through lower market entry barriers

The rapid development in the fintech sector poses new challenges for financial institutions, but also offers new opportunities. The adapted regulatory framework deliberately enables structural change in the industry. With the introduction of a new authorisation category ('fintech licence') and the associated reduced licensing and operating requirements for fintech companies, the market entry hurdles for new providers of financial services are lowered. However, the 'fintech licence' is not only open to fintech companies, but also to banks and other financial institutions such as securities dealers or asset managers. Overall, this could lead to new competition for banks in certain market segments – but since the market volume is also increasing, the share to be distributed for all is also rising.

## Become ESG compliant

Another regulatory development that affects the business models and investment strategies of banks and insurers relates to their ESG (environment, social, governance) activities. Customers and other stakeholders demand responsible investments; banks and insurance companies must provide and distribute relevant new financial products, such as the emerging green bonds, green loans, green listed equity and sustainability-linked products. Financial institutions and large institutional investors will play a key role in allocating capital to support and accelerate the transition towards a low-carbon economy, which will require the ability to procure and disclose high-quality and comparable ESG data.

A current ESG-related regulatory project of the Swiss Financial Market Supervisory Authority (FINMA) focuses on the disclosure of climate-related financial risks. Financial institutions are exposed to climate-related risks both through their own operational impacts and through the activities of their borrowers, clients or counterparties. FINMA aims to increase transparency about such risks in the financial system and is planning amendments to its circulars 'Disclosure – banks' and 'Disclosure – insurance'. The revised disclosure circulars became effective on July 1, 2021.

FINMA prioritises climate risk disclosure as part of ensuring a broader transition of the financial services industry towards more sustainable and positive business models. Therefore, financial institutions should also consider other ESG-related financial risks arising from, for example, resource depletion, environmental degradation and social issues, as further disclosure requirements in this regard are expected. It is essential that financial institutions review and update their risk frameworks to include climate and environmental risk drivers; additionally, they must develop a dedicated ESG reporting and control framework to effectively manage ESG disclosure requirements.

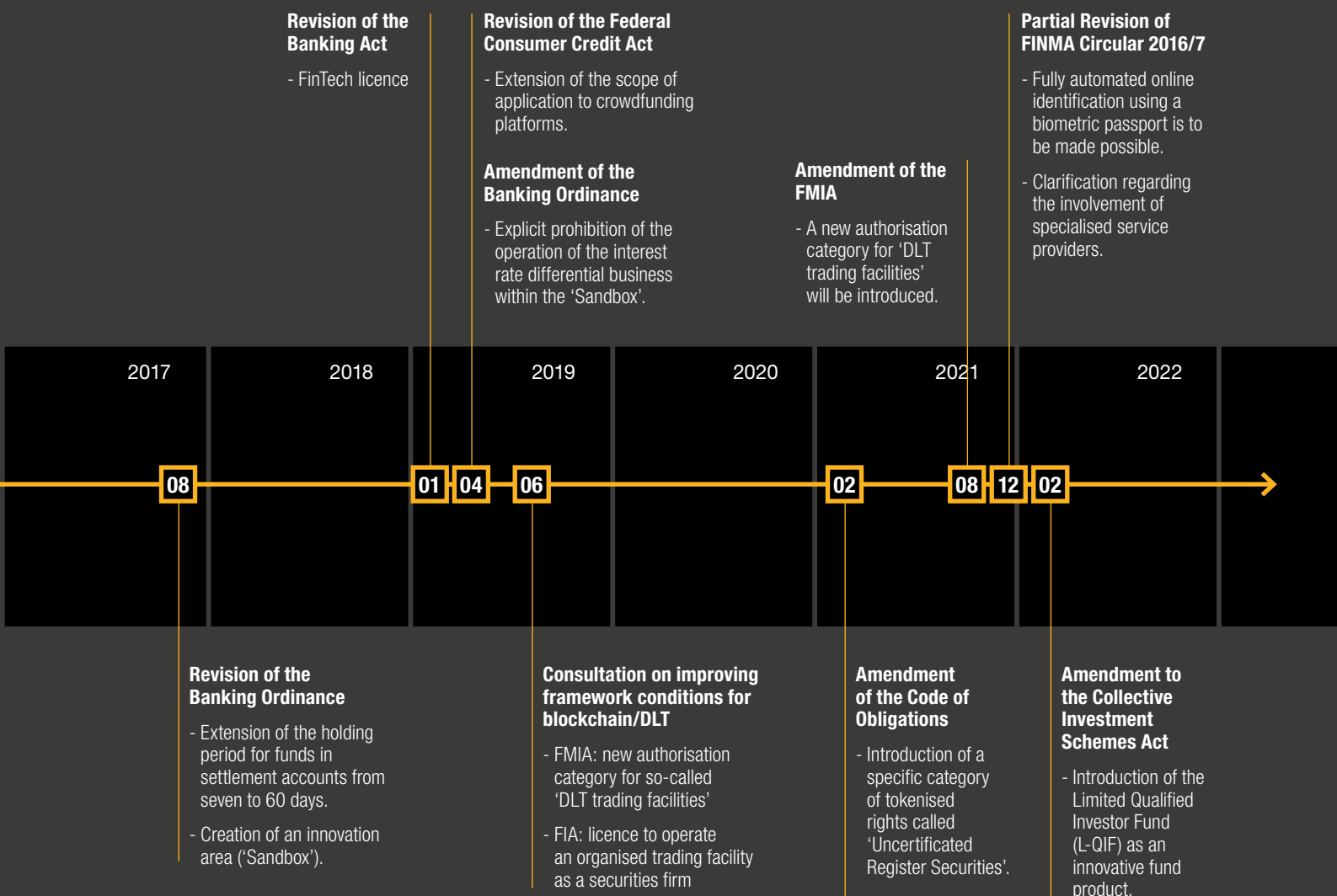
The international regulatory framework for sustainable finance will continue to evolve in the coming years in order to achieve the UN Sustainable Development Goals 2030. It remains to be seen how and to what extent further regulatory requirements related to ESG will be adopted by international and Swiss legislators, but they will certainly put further pressure on financial institutions' risk methodologies and their capital and liquidity management. However, banks and insurers can find ways to rethink their strategy, business models and products within sustainable finance while ensuring the resilience of their business.

# Financial Market Infrastructure Act/ordinance: promoting digital

Selective adjustments are to be made to the Financial Market Infrastructure Act (FMIA) in order to better align its requirements with digital business models to cover blockchain or DLT-based payment, trading and post-trading services, especially those directly targeting retail customers.

The following regulatory projects are currently being discussed:

Regulation to promote digital marketplaces			
Creating a new authorisation category for providers of financial market infrastructures in the blockchain/DLT area by means of an addition to FMIA and FMIO ('DLT trading facilities' – e.g. crypto exchanges)	Making it possible for market participants to apply for authorisation, even if solely for the purpose of operating an OTF (organised trading facility)	Making regulations on ancillary services of financial market infrastructures more flexible by amending FMIA and FMIO	Creating additional legal certainty on the question of whether derivative trading duties also apply to derivatives in the form of tokens



# 4

## How to capture the future

How can companies bring about the necessary change?

Here are our key findings and action guidelines for each trend.

### Consolidation and new market entrants

#### Address the new competition smartly.

Respond to the growing competition from fintech companies in new and agile ways.

#### Learn from fintechs.

Adapt and implement new and customer-centred tools and technologies.

#### Consider consolidation.

Seek to achieve cost and revenue synergies and scalable business models.

### Changing customer needs

#### Move towards online and hybrid channels – but not completely.

Push your digital strategy, but consider that physical branches are still important for certain client segments.

#### Insurers: scale up your digital offering to better engage with your customers.

Give your customers access to the right information to empower them to make the right decisions.

#### Improve your customer experience.

Turn your customer journeys into a decisive factor for your corporate strategy.

#### Enter partnerships and build ecosystems.

Drive innovation and expand your product and service offerings through partnerships with fintech and big tech companies.

#### Combine convenience at low costs with brick-and-mortar customer relationships.

Re-evaluate your strategy, focus on your strengths and embrace collaboration.

#### Put the customer centre-stage and collaborate.

Satisfy your customers' need by gaining speed, flexibility and new talent through cooperation strategies.

### Partnerships and ecosystems



## Rethink your business model and its technical foundation.

Break down siloed solutions and legacy systems, open up your IT landscape and use the full potential of your standard functionalities.

## Be flexible with the help of strong master data management.

Align your IT systems, prevent a fragmented landscape and make your data available.

## Use your data to create new business models.

Tap into and connect all your data sources to get detailed customer insights and a holistic view of your business.

### Emerging technologies

### New ways of working

### Regulation and ESG

#### Deal with regulation galore.

Take advantage of new regulations by redefining your strategy and venturing into new digital business areas with partners.

#### Seek opportunities through lower market entry barriers.

Face the structural change pro-actively. The 'fintech licence', e.g. is not only open to fintech companies, but also to banks and other financial institutions.

#### Become ESG compliant.

Review and update your risk frameworks to include climate and environmental risk drivers and develop a dedicated ESG reporting and control framework.

#### Don't forget your people on your transformation journey.

At the core of every change is the human being. Bring your workforce on board your transformation, enable their upskilling and foster a new culture and mindset.

#### Measure your progress.

Implement a performance management system, e.g. OKR, that links business strategies to results and encourages creativity.

#### Break down silos and form agile teams.

Let your teams work across divisions, share their knowledge and reassemble themselves constantly.



“

**By rethinking their business model and adopting new technologies, companies can transform change into opportunities.”**

**Patrick Akiki,**  
Partner FS Management Consulting





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