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Special Edition

Changing customers' behaviors force banks to move toward digital models

- Interview with Alex Sion by Takashi Yoshinaga -

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Executive Summary

Moven, a neobank, is a pioneer in the next generation digital banking space, and has influenced many with a new approach to the banking client experience with mobile-direct banking, mobile payments, digital client engagement, incorporating social networks & social data, everyday financial wellness advice delivered real time and at scale. Mr. Alex Sion, Co-founder and former President of Moven, spoke on the current state and the future prospects of the company, financial wellness, neobanks, and other fintech-related issues. (The interview was conducted in August 2016, before Mr. Sion started working at JP Morgan Chase as Head of Mobile Platform in October 2016.)

Alex Sion

Co-founder, Moven

Mr. Sion had led Moven to become one of the fastest growing and representative fintech firms in the world as President and COO, before joining JP MorganChase in October 2016 as Head of Mobile Platform. Prior to co-founding Moven, Mr. Sion worked at various financial institutions and consultancies, including Citigroup, Sapient, Capgemini as leader in strategy and operations.

Takashi Yoshinaga

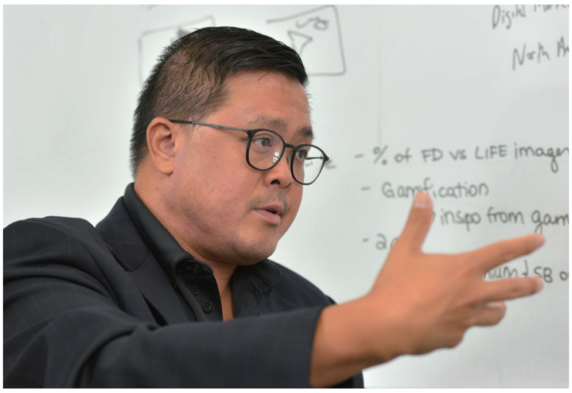
Head of Research, Nomura Research Institute America

After joining Nomura Research Institute America in 2005, Yoshinaga has lead its financial services research team, covering wealth management, retail banking, asset management, corporate and investment banking areas. Prior to that, he was Senior Research Analyst and Chief Representative of New York Office of Kinzai Institute for Financial Affairs, a nonprofit financial research organization under the jurisdiction of Financial Service Agency of Japan.

Yoshinaga: Moven is regarded as one of the most representative fintech companies in the world. And "neobank" is one of the most representative business categories in the fintech space and I believe that Moven is one of the most famous and successful neobanks today. I would like to start with asking how you define "neobank" yourself"?

Sion: In my definition, a neobank is any bank that delivers fundamentally different value propositions to end users. If there is a bank that is using technology to provide service or support for existing products, I don't consider it neobank. A neobank has to have some sort of fundamentally different way in constructing products or services. Neo means new, and those have to be new.

Yoshinaga: You call Moven a financial wellness company, not a financial product company. What do you mean by that?



Sion: The new opportunities, created by the digital age, brought the ability to create new value propositions and platforms that sit on top of banking. They facilitate not only the delivery of banking services, but also the nature of value proposition of banking services. Moven is organized around the idea that the value proposition of financial wellness, led by digital technology, will guide customers to better spending habits. That's the value proposition of our experiences to customers. Banking products are the means for delivering that value proposition. In that way, Moven is not really a bank product company, but a financial wellness company, where the delivery of bank products via our digital/mobile experiences is key.

Yoshinaga: Considering the dynamic changes in customers' behavior and characteristics, how do you define Moven's target customers?

Sion: We believe that there are several rapidly-growing, dynamic customer segments, which are really changing bank customers' demands and behaviors. They are forcing banks to move toward Moven-like digital models. Those segments are: "millennials", who are open to digital and fundamentally different value propositions; "women", who are being dramatically empowered by apps and technologies focusing on women's needs; "unbanked", who have not being able to access banking market and product and services because of unavailability of branches or others; "next generation workers" or "gig-economy" workers who are independent contractors with different financial needs, like someone engaging in app-based business like Uber drivers, and; "internationally-minded" customers, who are very connected to global world and economy, where the physicality of currency is no longer a barrier to banking. We believe these five segments are not only attractive to banks for their growth potential, but also most dynamic in using technology as key aspects of their lifestyles. That's why addressing their needs is critical for banks.

Yoshinaga: You and Moven CEO Brett King have been saying that bank branches will disappear. Could you elaborate a little bit more on that?

Sion: In the classic banking model, banks served the purpose of facilitating commerce. That was the reason for them to exist. However, a banking model like that is dependent upon customers engaging with the banks. Essentially, customers have to come to banks in order to get permissions to operate in the world of commerce. What's happening in the digital world is that, for the first time, customers are empowered and enabled by the technologies in their hands and pockets to conduct commerce. In essence, they have the ability to access commerce without the need of physicality. That is what Brett and I think is a fundamental challenge to the branch-based delivery model, where customers are required to engage with physical offices to initiate relationships to get products and expand the nature of the services. All of them are barriers to the operation of the world of commerce, which is now increasingly more digital. We believe the branch-based model will very quickly and inevitably go away, as banks switch to support and facilitate commerce in the most efficient way.

Yoshinaga: In my understanding, many U.S. banks, either megabanks or regionals, tend to keep certain numbers of branches, while optimizing the branch mix by introducing more express, kiosk, virtual tellers and etc., assuming that the physical presence of banks is still very important for now.

Sion: I think it comes down to assumptions regarding the pace of human behavioral change. Fundamentally, there were three reasons why bank branches had existed: physical security of banks that provide to hold money; physicality of money like cash-based currencies or values stored in physical instruments, and; banks' ability to provide advices and services that are engaged with human beings to address the customers' too complex problems and needs, which digital interactions were regarded not to be able to handle. However, all those three assumptions are already gone in many parts of the world. Physicality of cash, or just pure money, is absolutely not necessary. Many governments around the world are moving fast towards to digital money, because in many ways it benefits societies. Taking that away, the physical security element goes away, and digital security becomes paramount. Lastly, human advice, which has been perceived as a need for people to engage with other people to collaborate on financial problems, was provided on complex issues. I would say that almost 80% of the human interactions were needed to address the bank-driven complexity that banks placed on the top of their products. Governments around the world work together to push toward increasing the transparency of financial products and the associated complexity for the benefits of consumers will go away. With today's mobile commerce behaviors and social behaviors, customers are already placing significant trust in digital platforms which, in many ways, supersedes trusts on physical platforms. I firmly believe that the need for branches is self-propaganda for the banking industry and will quickly go away.

Yoshinaga: One of the most shocking remarks I have heard from you in the past is "Omni channel strategies are old", even though many banks in the U.S., Japan and other areas are working hard to become omni-channel providers in the retail financial space by integrating multiple channels, including branches, contact centers, internet, mobile and ATM, in a seamless manner. You are suggesting that the "primary channel" is promising. How can omni-channel models become obsolete?

Sion: Again, this is fundamentally a bet on the pace and the scale of customers' behavioral changes. At some point, in most advanced economies in the world as well as in emerging ones, we believe that an omni-channel banking strategy is not driven by customers' choices, but banks' business decisions. At the point where the vast majority of customers have smart phones and have already conducted commerce on mobile devices, it is really the banks` decision, not the customers' choice, to pursue an omni-channel model. Frankly, it will create very cumbersome, costly operating environment, which will naturally make the traditional banking model much less efficient. The proliferation of mobile-only or mobile-centric models is a bet on how fast you think your economy will achieve the tipping points of smart phone penetration and mobile device usage in commerce. I would say, despite the fact that banks believe customers are behind in technology usage, the proliferation of smart phones may have already reached the tipping point in major technologically advanced economies as well as in some emerging ones. That's the bet.

Yoshinaga: Technically as a legal entity, Moven provides banking services as an agency for banks. I believe that you had an option to do the same thing by becoming a bank, when you started up the business. What was the fundamental reason Moven chose not to be a bank?

Sion: We believe that there are two distinct, different businesses. We are a digital experience platform and banks are banking platforms. Banks do essentials. They construct products, such as checking accounts, saving accounts and credit products. Those product structures stay the same for some time, in the way they develop and manage them. What's dramatically changing is the digital experience platform, on which banks need to interface and interactively engage with customers, which we believe is a separate and distinct, business. At the same time, the two businesses need each other. Banks need next generation experience platforms to engage with customers, which we have. Banks have two options: build it themselves, which is well beyond many banks' core competency today, with significant investment of time and money, or partner with someone like Moven who can enable them much more rapidly to deliver digital experiences to their customers than they do themselves. Moven is a digital experience platform that can effectively deliver banking services to next generation banking customers and support banks around the world without having a banking charter.

Yoshinaga: Moven is working with CBW Bank in the U.S. in a B2C model structure under Moven's brand name, while partnering with Toronto Dominion (TD) and Westpac New Zealand in a B2B structure with their brand names. How do those two different models co-exist and complement each other?

Sion: One feeds the other. In our B2C model with CBW, we essentially continuously develop software that we use in the B2B model. We believe that, in the traditional banking and technology software space, software is sometimes developed in an overly theoretical manner with theoretical ideas about business and customer needs. They need to test with relatively fewer customers before they launch the product in the market. Moven essentially started its business in the B2C space to address the issue. We thought that technologies and the experience delivered by the technologies are advancing so rapidly but we needed to test the software in reality. Commerce is happening in real time and a banking products are delivered in real time. We build software and test it in the B2C model and then use it B2B model very quickly. In B2B, TD's case is a good example describing how we partner with other banks. In TD's case, we developed a companion app called TD MySpend, separately from TD's existing mobile app. There is no Moven name on it, but it's powered by Moven technology. This is the perfectly successful example. TD has a large, dominant bank brand name in Canada and they were able to deliver unique and differentiated experiences to their customers in a very rapid timeframe with gathering more than a half million users just in the first few months after it was launched. It continues to grow. At one point in the time, TD MySpend was the most popular app in the free app store in Canada.

Yoshinaga: I heard that Moven overcame several myths, which many banks have been struggling with, in the TD project.

Sion: First, TD MySpend was provided as companion app, along side TD's existing banking app. In general, a bank wants to consider its website and mobile app as a branch and try to put the all products on them. However, in the case of TD, they have separately branded two apps, one for helping customers' spend better and the other for conducting banking transactions. Those two are very powerful and can co-exist. Second one is the usage of cloud. It is quite a new to banks. In the technology circle, it is well known that value proposition of using cloud is not only low cost advantage, but also the ability to leverage the continuously and rapidly evolving technology infrastructure. However, banks have been reluctant to use cloud, especially in an enterprise-wide, customer facing systems. Last one is speed. Typically, banks take

18 to 24 months to develop a customer facing channel, but working with Moven, TD took just 9 months from starting the coding to launching TD MySpend.

Yoshinaga: So far, you have two partnerships with large foreign banks in the B2B model. What types of banks will you add to your partnership network? Will you work with other U.S. banks and smaller regional banks?

Sion: We have a healthy pipeline. We plan to have at least 2 more partnerships by the end of 2017. We don't exclude U.S domestic banks or regional banks in our partnership model. Moven can help them quickly launch apps targeted at new geographic markets or new customer segments, pursuing growth opportunities. In the long run, we may help them to survive from the transformation standpoint.

Yoshinaga: In terms of product category, Moven currently provides checking and payment services and a sort of PFM. What kind of product and services are you considering to introduce in the coming months?

Sion: We will launch savings products by the end of 2016, and credit products during the first half of 2017 in U.S. We have already experimented credit product offering to customers via our partnership model. Moven's financial wellness value proposition is over the top of layer, and will facilitate us to provide full range of banking products and services to customers.

Yoshinaga: Will you provide investment products such as mutual funds?

Sion: To us, investment is a byproduct of the experience of savings. Moven guides customers to build habits to save. The savings can then go into investment products.

Yoshinaga: How about robo-advisors?

Sion: I think it's dependent upon the banks we will work with. We don't think that Moven itself won't invest in building robo-advisors products. However, many banks around the world have already invested in developing those products. Then, the question will be what experiences those banks are going to deliver to customers with the robo-advisor products. Moven can be quite helpful for banks to create the experience platform on which they launch robo.

Yoshinaga: What do you think of the potential of utilizing artificial intelligence in retail financial services?

Sion: I think it's likely very unlimited, based upon the speed and acceleration and customers' comfort with the technology. When we break it into two human banking interactions, one is analytics that the bankers do. To be frank, most of those can be done with spreadsheet technology today. That AI already exists. The other is emotional, human interface and interaction component. That's where AI has huge potential, as it gets more natural in the way it can facilitate a more human interaction.

Yoshinaga: I met you for the first time approximately 10 years ago, when we were with a roundtable of banks' investment salespeople. You were a management consultant for the financial services industry and gave a keynote speech and moderated a panel discussion there. Looking back to then, did you imagine the current proliferation and potential of fintech and what you are currently doing?

Sion: No. I think the game changers are the rapid rise of mobile, digital and e-commerce. All happened at the same time. Those three, combined, really has changed the game in the way anyone would not be able to predict. Ten years ago, I believed that technology would have dramatic impact on the nature of client experiences and financial services interactions and, eventually, how the business model of financial services worked. But the pace of change and the nature of how that change is relevant was far beyond my expectation.

Yoshinaga: Thank you so much for your time to share insight with us today. I felt as if you came from the world of 2026 to answer my questions.

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