Part II
Digital Business 2020: Getting there from here!
Commentary
Disrupt or Be Disrupted
Cognizanti is an annual journal published by Cognizant. Our mission is to provide unique insights, emerging strategies and proven best practices that globally-minded companies can use in their quest for business and IT performance excellence.

All articles published in Cognizanti represent the ideas and perspectives of individual Cognizant associates and contributors who have documented expertise in business-technology strategy and implementation. The content of the articles published in Cognizanti represents the views of the individual contributors and not necessarily those of Cognizant. They are put forward to illuminate new ways of conceptualizing and delivering global services for competitive gain. They are not intended to be, and are not a substitute for, professional advice and should not be relied upon as such.

For more insights, and to continue the conversation online, please visit our e-community at http://connections.cognizant.com or download our Perspectives app from the Apple App Store or Google Play at http://cogniz.at/itunescognizantperspectives or http://cogniz.at/googleplaycognizantperspectives, respectively.
Non-traditional rivals and heightened global regulation are converging to create new digital opportunities for the banking establishment. To seize the high ground, banks need to think like disruptors and apply modern digital tools, techniques and partnership strategies to keep pace with accelerating change.

More than a few bankers may have flinched when the news broke in late July of Amazon’s market capitalization surpassing Walmart’s for the first time. Walmart’s revenues continue to dwarf Amazon’s by a factor of five. But the fact that investors now value Amazon higher than the world’s largest retailer reflects a belief that the online upstart’s formidable digital business acumen offers greater growth opportunity.

Can you imagine a time when investors believe the same about banking industry disruptors, such as Lending Club, PennyMac and Prosper, vis-a-vis Bank of America, Chase and Citi? Far-fetched, perhaps. But Walmart leaders surely sensed the tilting of the playing field in 1998 when the retail giant pursued a lawsuit (ultimately settled) alleging that Amazon had stolen trade secrets.

Banks recognize the need to engage disruptive competitors, of course, and many are developing digital, mobile and other strategies to do so. But heavy compliance requirements, rising cybersecurity risks and anemic revenue growth are among the constraining realities at a time when nimble competitors are targeting banks’ high-margin businesses with innovative customer experience models.

What are banks to do in the face of these threats to their profitability and prospects?

The Only Constant Is Change

Even banks in the vanguard feel outgunned by the speed and breadth of upheaval. Today, non-banks hold two out of five loans across key lending segments, as well as a similar (and record-making) share of mortgage originations. Non-bank mortgage servicers have tripled their market share in the past three years.

Disruptors such as those mentioned above are storming traditional bank strongholds, including personal and small business lending, wealth management, mortgage banking, commercial real estate and student loans. Unconstrained by regulatory strictures that banks face domestically and internationally, the upstarts are pursuing opportunities in crowdfunding, peer-to-peer (P2P) lending, robo-adviser investment services and payment network disintermediation, among others.

Some disruptors will be flashes in the pan. Others, we believe, will gain critical mass and truly threaten meaningful chunks of the banking and financial services industry, a risk validated across European countries and geographies. Regardless of who emerges, the forces of disruption introduce looming challenge for banks in the immediate future, especially when considered in the context of the current regulatory environment. Yet on a somewhat longer time horizon, these two factors – disruptive competitors and increasing regulations – may well converge in ways that create new opportunities for banks.
Seizing Opportunity

The disruptors’ move into banking markets to date has consisted of an array of guerilla actions rather than a frontal assault. Eventually, though, these incursions could reach a critical mass that exposes them to regulators’ crosshairs.

At that point, disruptors will discover that banking is not a simple business. Institutions need a strong balance sheet and the know-how and resources to operate within a regulatory compliance and custodial framework designed to protect the money and wealth of consumers, as well as the well-being of the economy, backed by a federal government.

When it comes to entrusting one’s life savings to an institution, banks cannot be supplanted as rapidly as Netflix replaced Blockbuster. The larger the share of loans that P2P lending platforms capture, for example, the more likely that regulators will descend.

Whether and how regulators disrupt the disruptors, banks can take steps now to capitalize on inevitable changes in the landscape.

First, realize and acknowledge that disruption is real. It may not be a direct threat to everything your bank does, but it can certainly eat away at higher-margin business.

Next, even if you can’t do exactly what the disruptors are doing, start incorporating some of their concepts into your business model and service offerings. Further, explore whether to compete head-on with disruptors to protect high-margin business or find ways to work with them. Bankers have become familiar faces in Silicon Valley and other tech centers, exploring investment and partnering opportunities. Some are creating their own startup-like cultures within key business units, such as the recent inauguration of Wells Fargo’s digital lab.

Banks have plenty to offer the disruptors, too. They can build value clusters based on their core platforms, exposing APIs and offering resources to help upstarts scale their offerings. Leveraging their strengths, banks can protect their client base while providing an ecosystem for innovators, and take a cut in the process.

Finally, as disruptors face the specter of greater government oversight and enforcement, banks can become their saviors. For example, the New York Department of Financial Services is imposing a policy requiring digital currency companies to obtain a license to transmit money on behalf of customers.

Bankers have long traveled the regulatory road, building compliance systems, engaging with the authorities, and continually adapting to new edicts and expectations. Disruptors that feel at home in an innovation lab might be far less comfortable navigating the Securities and Exchange Commission, Office of the Comptroller of the Currency, Federal Financial Institutions Examination Council and the halls of Congress, and would welcome some help.

Banks recognize that they face unprecedented perils today and need to act. By keeping pace with innovation, accepting inevitable change and capitalizing on their inherent and hard-earned strengths, they have a fighting chance to stay in the game.

Even if you can’t do exactly what the disruptors are doing, start incorporating some of their concepts into your business model and service offerings.
Footnotes


Author

Prasad Chintamaneni is President of Banking and Financial Services, leading Cognizant’s largest industry business unit globally. As global lead since 2011, Prasad is responsible for the business unit’s global P&L, including sales, business development, consulting, client relationship management and delivery. During his tenure as global lead, Cognizant’s Banking and Financial Services business has grown manyfold to become one of the largest providers of services to the banking and financial services industry, earning Cognizant fourth place on the 2015 FinTech 100.

Prasad joined Cognizant in 1999 and established key relationships with many of Cognizant’s largest banking and financial services clients, while leading Cognizant’s U.S. Eastern Region Banking and Financial Services Practice through 2006. Prior to joining Cognizant, he spent seven years in investment banking and financial services, including the last five years with Merrill Lynch as an investment banker and as a member of Merrill’s business strategy committee in India. Prasad serves on the Board of Directors of NPower, a nonprofit that assists schools, nonprofits and individuals to build technology skills by harnessing the power of the technology community. He earned his postgraduate diploma in business management from XLRI School of Management in India, following his bachelor of technology degree in chemical engineering from the Indian Institute of Technology, Kanpur, India. He can be reached at cprasad@cognizant.com.
About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world’s leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work.

To learn more about Cognizant, please visit: www.cognizant.com.

U.S. Headquarters:
211 Quality Circle
College Station, TX 77845
Tel: +1 979 691 7700
Fax: +1 979 691 7750
Toll Free: +1 855 789 4268
Email: inquiry@cognizant.com

India Operations Headquarters:
#5/535, Old Mahabalipuram Road
Okkiyam Pettai, Thoraipakkam
Chennai 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060
Email: inquiryindia@cognizant.com

China Operations Headquarters:
Cognizant Technology Solutions (Shanghai) Co.
Zhangjiang Hi-tech Park
Building No. 5, No.
3000 Longdong Avenue
Shanghai, Pudong China 201 203
Phone: +86 21 6100 6466
Fax: +86 21 6100 6457
Email: inquirychina@cognizant.com

Global Delivery Centers:
Budapest (Hungary), Buenos Aires (Argentina), Guadalajara (Mexico), London (UK), Manila (Philippines), Shanghai (China), Toronto (Canada); Chennai, Coimbatore, Kolkata, Bangalore, Hyderabad, Pune, Mumbai, New Delhi, Cochin (India); Bentonville, AR; Boston; Bridgewater, NJ; Des Moines, IA; Minot., ND; Phoenix, AZ; Tampa, FL (U.S.).

Regional Offices:
Atlanta, Boston, Chicago, Dallas, Los Angeles, Norwalk, Phoenix, San Ramon, Teaneck (U.S.); London (Canada); London (UK); Frankfurt (Germany); Paris (France); Madrid (Spain); Helsinki (Finland); Copenhagen (Denmark); Zurich, Geneva (Switzerland); Amsterdam (The Netherlands); Hong Kong, Shanghai (China); Tokyo (Japan); Melbourne, Sydney (Australia); Singapore (Singapore); Bangkok (Thailand); Kuala Lumpur (Malaysia); Buenos Aires (Argentina); Dubai (UAE); Manila (Philippines).