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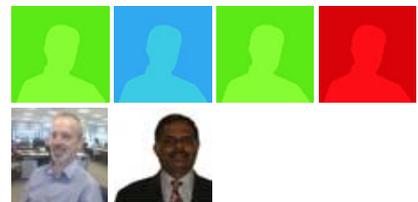
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Disruptive Mentality in Banking

01 August 2016 | 7617 views | 1

Banks must lower their services cost to at least 10% of their current cost.

3D printers cost \$40,000 in 2007, \$100 in 2016. Drones cost \$100,000 in 2007, versus \$100 in 2016. Knowing the sequence of the full human DNA used to cost \$10 million in 2007 and in 2016 it only costs \$100. All this has been achieved thanks to processes of exponential growth.

How is it possible that my credit card costs the same today as it did in 2007? How many processes linked to a bank credit card service do you think can you automate through an algorithm? I would say that at least half or more. It does not seem like digital transformation has arrived to the banking services yet.

Lately I have the feeling that many banks and insurance companies believe that digitalization means to multiply the digital ads. I wonder if any of them have calculated the cost of customer acquisition of such campaigns. **How many WhatsApp ads have you seen so far? And Skype's? And Facebook's?**

Almost every day I am seeing listings of banking awards: the more transformational, best corporate bank, best bank in Asia, etc.

Have you seeing any Google, Facebook or Tesla award?
Google made 350 pitches to investors prior to obtain financing!

Few months ago I received an executive summary of a health-care start-up. I loved the idea and its potential. I asked for a meeting with the entrepreneur and I confirmed he was a bright guy. After a long presentation, I said to him "I like the project and I like the team, but I am concerned about this (pointing at an ad for all the awards they got in recent months)." If they were dedicated to the awards, how were they going to meet business objectives? The entrepreneur recognized me that it was true. They were in a critical financial situation, very closed to bankruptcy. I never invest in awards, only in results and people.

Why is the disruptive mentality required in banking?

Just to give some examples of the cake that the banks have already lost because others innovated before them:

Crowdfunding : The business of financing companies always has been preserved to the banks. According to the latest published data the amount financed via crowdfunding in 2015 would amount the total UK market capitalization and it is growing by 80% per year. Can you imagine an international bank that is not in the City?

Big Data: Banks are in an extraordinary position to offer a lot of customized products due to the client data that they have. However, they have not really exploited that potential up to now. The truth of the matter is that Google and Facebook, claiming more than 40 percent of the digital advertising space market, are already using data more effectively than banks, even though the type of information banks have is of much greater value. While the Life Time Value of an Acquired Customer for a Spanish bank has declined in the last 5 years, the Life Time Value of an Acquired Customer for Google and Facebook or Amazon in this market has increased continuously.

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Payment methods: one of the fintech hottest areas is the payment method. Indeed it is where the banks have invested large sums and where they claim they will be more innovative. Two examples:

- Alibaba, is the first company in internet transactions, ahead of Amazon. It is well known that the success of Alibaba is its payment method, Alipay. Not precisely developed by a bank.
- London underground: one of the places with more daily money transactions of the world. Do you know which is the easiest way of payment? Apple Pay!

How to promote the disruptive mentality for the digital transformation in banking?

It's innovating, ideally without muscle and money. How did Ireland transformed from a country producer of potatoes and wool to be a reference in biotechnology and technology?

Some banks are trying to take this disruptive mentality into products. Where are they failing? My guess is that most of them are failing in the execution. These are some decisions I have seen useful to promote and specially to execute this disruptive mentality:

1. Hire successful entrepreneurs that have transformed companies. It is more important that they are "transformative" than their "digital" knowledge. A Google manager can be very digital but their employees most likely where already digital natives. You need people that have done something heroic.

2. Innovate and educate confidently. You must create passion both on clients and employees. You should have a plan for the whole employee pyramid. For example, companies like SAP or Google make **Intrapreneurship programs**. In banking all employees, even customers should do a **basic Fintech course**. You should create passion in the subject matter and be able to measure it. As an example, we have courses where students sent 400 daily WhatsApps on the subject discussed in class.

3. Be inspirational and do not allow the status quo. Your enemy is not a competitor, but the status quo of your employees. It is essential to line up those employees. I've worked with Mexican industries with more than 20,000 factory workers that they have adopted digital technologies because they where motivated by the sold benefit. In the most successful case, the managers were not especially digital, but very transformational and extremely innovative. They learned to answer:

- How to promote the intrapreneurship?
- How to change the culture?
- How to attract talent?
- How to make compatible strict corporate procedures with innovation?
- What to buy and how to successfully integrate outsiders?
- How to promote the disruptive mentality?

What should be the disruptive mentality in banking?

Disruptive mentality in banking is to: charge at a 90% discount rate credit card services; link advertising performance with product demand; use voice robot financial advising; issue personalized financial products with 50 times less face value; be at least 10 times smarter in big data usage for product development and promotion, that will allow to do Amazon like recommendations to increase product consumption; use machine-learning models for consumer credit risk management; etc., etc., etc. Maybe banks will not get many awards, but they will get many customers.

@Quesada_Vicente

Note: This is a second article about Digital Banking Transformation. For further details read "Digital Banking Transformation: BBVA vs. Banco Santander".

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Steven Hatton - Trusek Ltd - Amersham | 02 August, 2016, 06:31

Absolutely agree! Before the banks can adopt disruptive technology there needs to be a committed change in mind set, from the top down. This change in attitude seems to be half hearted at the moment with banks just tinkering at the edges as opposed to a full blown overhaul of their busoness practices.

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