



TRANSFORMATION IN FINANCIAL SERVICES
ABOUT THE RESEARCH

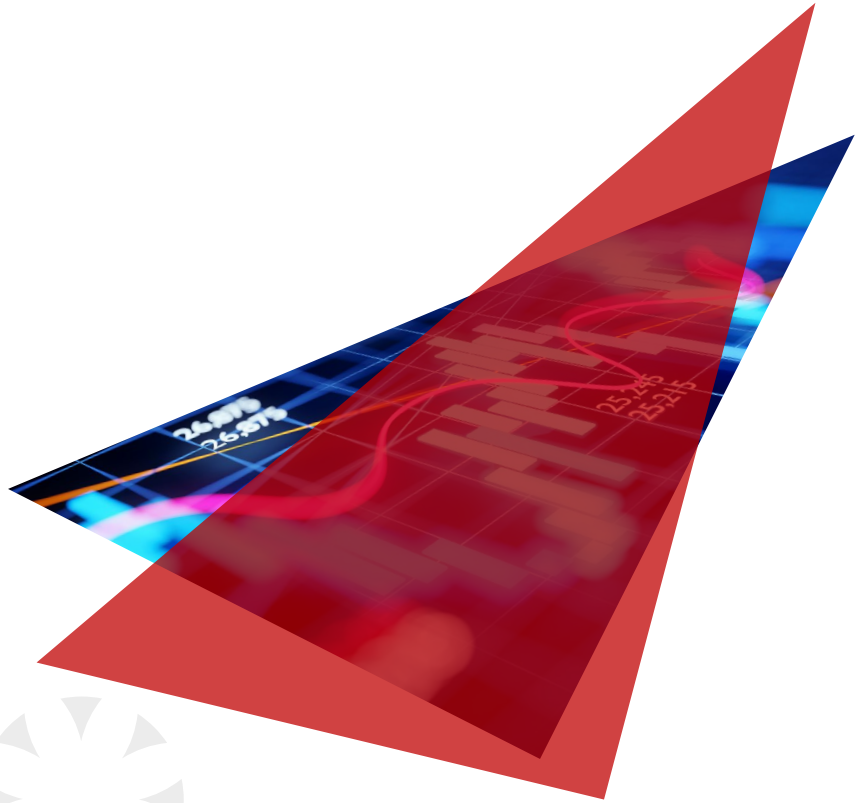
JUNE 2021

TABLE OF CONTENTS

▶ **THIS DOCUMENT IN CONTEXT**

▶ **RESEARCH RESULTS**

▶ **APPENDIX**



Context | Introduction to this report



Driving strategic transformation – reinventing the core business while also creating new growth – is a leadership imperative today, more than ever before.

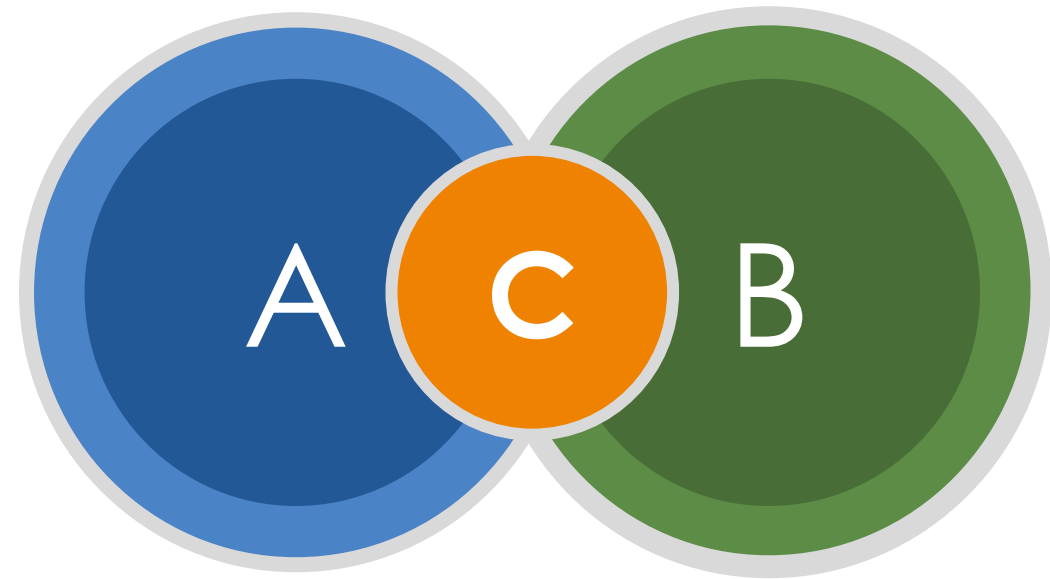
Organizations often face obstacles to drive successful transformation. Some financial service firms have risen to the challenge and strategically transformed to ensure resilience against disruptors. In this report, Innosight spotlights **eight success stories of “strategic transformers.”**

Themes and lessons that emerge from this study can help incumbent financial services be better positioned for the future.

This document provides a detailed perspective on our research. The executive briefing “Navigating Disruption in Financial Services” can be found [here](#).

Context | Dual Transformation

- Growth challenges are not uncommon in today's saturated markets. The right response is not taking a “wait-and-hope” approach. Nor is it doubling down on the traditional business.
- Rather, the right response is a two-track process to make today's business more resilient while creating tomorrow's new growth engine – **Dual Transformation**.
- By leveraging difficult-to-replicate assets and capabilities, companies can create transformative new business models and gain advantage.

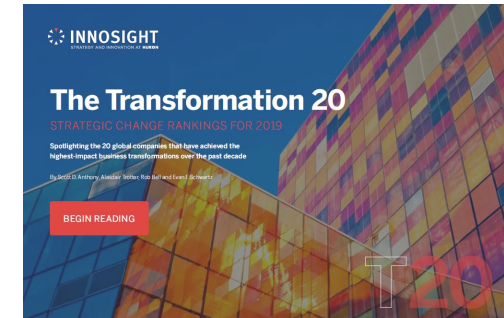


TRANSFORMATION A C APABILITIES LINK TRANSFORMATION B
Reposition Today **Catalyze core assets** **Create Tomorrow**

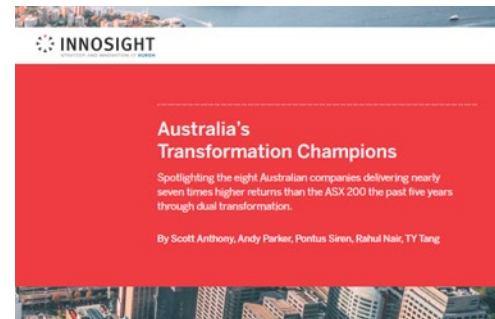
Context | Past transformation studies

- Innosight has helped several companies tackle dual transformation successfully. Innosight also has a series of reports of “Transformation champions” which chronicle companies leading strategic transformations.

- The research has been conducted globally (published in Harvard Business Review), in Europe (published in the German version of the Harvard Business Review), in Australia, and ASEAN.



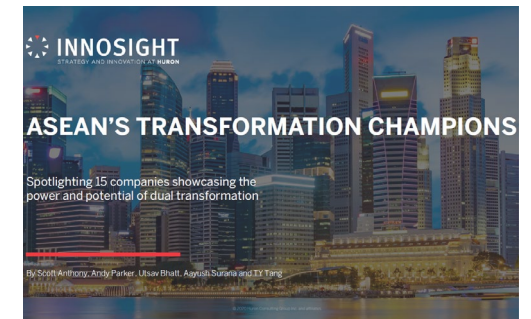
Global Transformation Champions



Australia's Transformation Champions

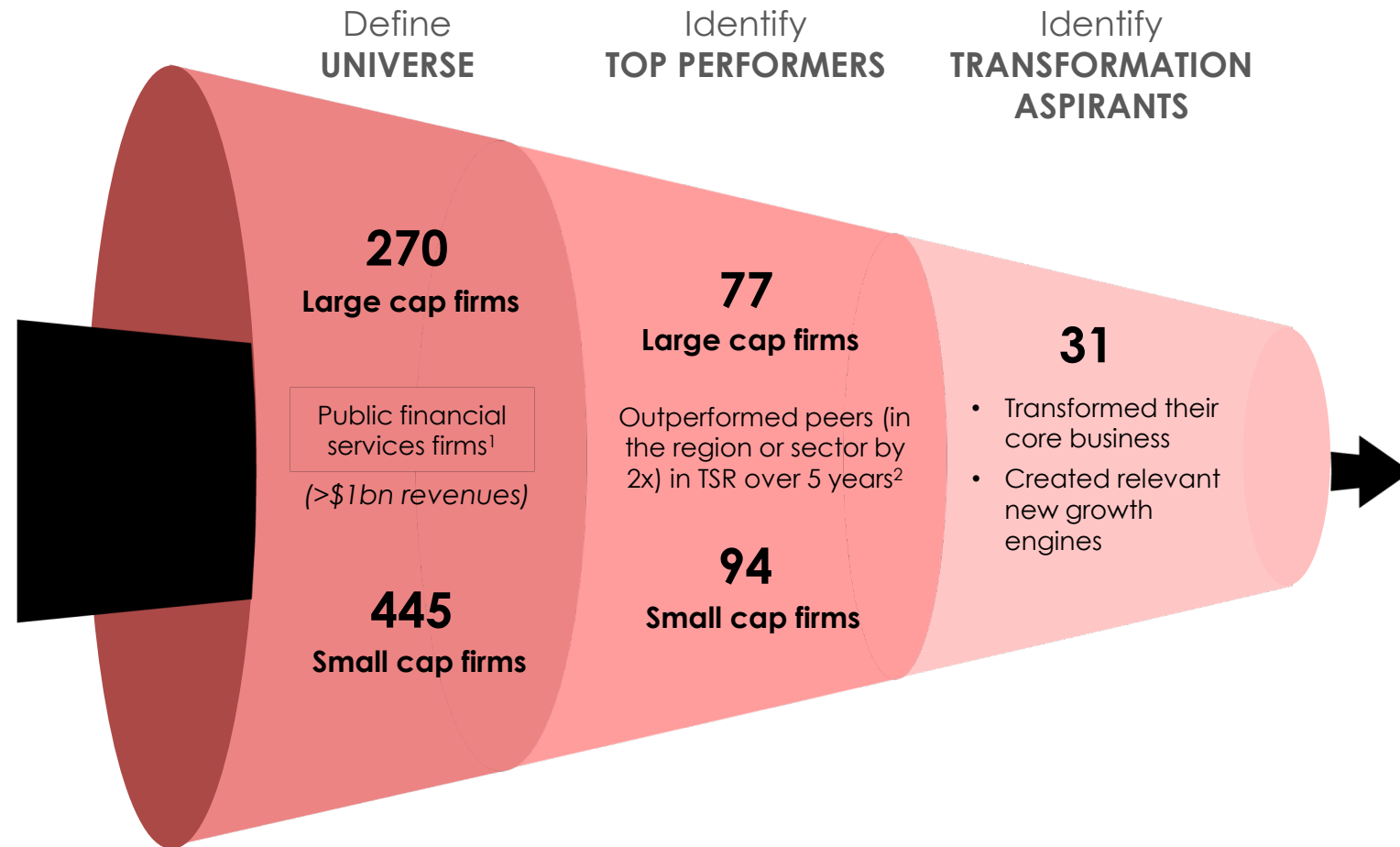


Germany's Transformation Champions



ASEAN's Transformation Champions

Context | Research approach overview



8 STRATEGIC TRANSFORMERS

- **New growth:** How successful has the company been at serving new markets and creating new business models?
- **Repositioning the core:** How effectively has the company adapted its traditional core to changes or disruptions in its markets, giving its legacy business new life?
- **Financials:** Has the company posted strong financial and stock market performance, or has it turned around its business from losses or slow growth to get back on track?

¹Includes Multi-Sector Holdings, Diversified Banks, Asset Management and Custody Banks, Investment Banking and Brokerage, Consumer Finance, Diversified Capital Markets, Thrifts and Mortgage Finance, Regional Banks, Insurance, Payments, and Other Diversified Financial Services

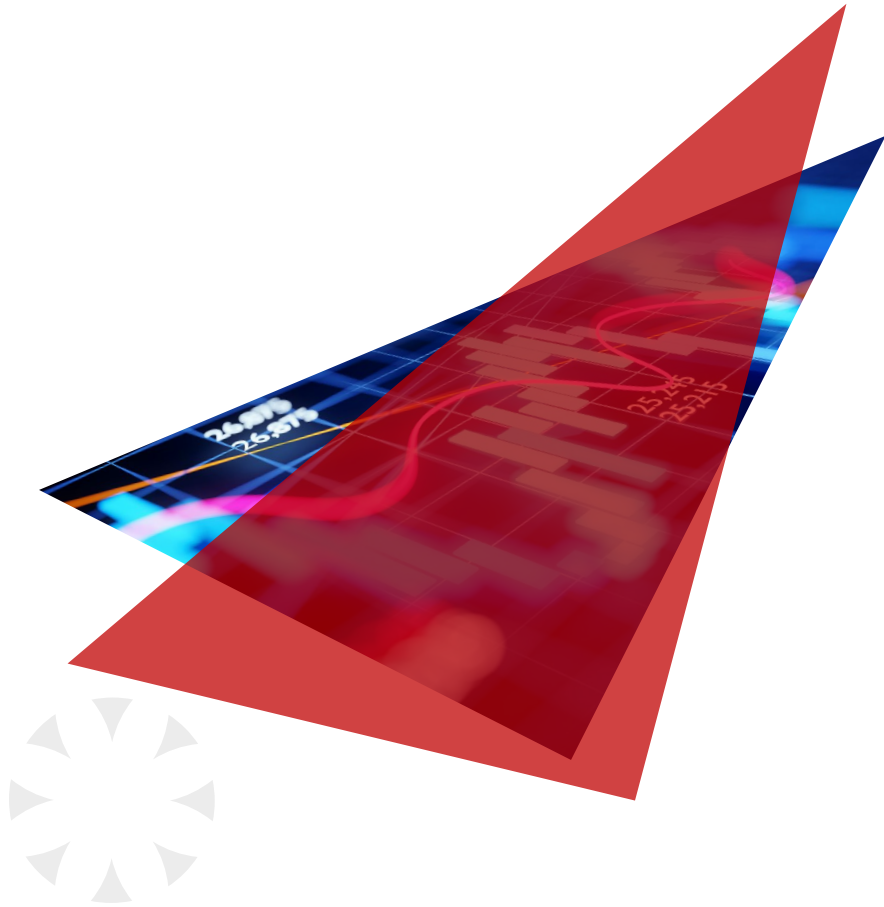
²Benchmark indices for large cap: MSCI North America, MSCI Europe and Middle East, MSCI AC Asia Pacific, MSCI World and MSCI World Financials (from Dec 31, 2014-2019)
Benchmark indices for small cap: MSCI North America Small Cap, MSCI Europe and Middle East Small Cap, MSCI AC Asia Pacific Small Cap, MSCI World Small Cap and MSCI World Financials (from Dec 31, 2014-2019)

TABLE OF CONTENTS









▶ THIS DOCUMENT IN CONTEXT

▶ **RESEARCH RESULTS**

▶ APPENDIX



We identified 8 incumbents that are strategic transformers in financial services

COMPANY	SECTOR	GEOGRAPHY	TRANSFORMATION SUMMARY
	Asset Management	USA	Transforming to an infrastructure and technology provider through Aladdin, a risk analytics and portfolio management technology solution, while growing the core business with iShares ETFs. BlackRock expects Aladdin and other technology solutions to account for 30% of revenues in 5 years versus the current 7%.
	Banks	USA	Expanding to a new business model by creating industry-wide blockchain powered technology solutions, Liink (a payments infrastructure) and JPM coin (digital coin) through a dedicated unit, Onyx. J.P. Morgan is also digitalizing its core business and launching a digital-only bank in the UK (later in 2021).
	Banks	Russia	Transforming to a "super app" by expanding its non-financial services offerings. Sber aims to drive the share of non-financial services (including e-commerce, media & entertainment, education, cybersecurity, cloud, among others) to 60% of revenues by 2030.
	Insurance	Hong Kong	Expanding to a health and wellness ecosystem beyond insurance with the AIA Vitality platform that provides wellness, prevention knowledge, tools and incentives to AIA members. AIA also offers consumers access to digital healthcare platforms and on-demand telemedicine through regional partnerships, an area it plans to grow steadily.
	Insurance	China	Creating digital ecosystems around auto, finance, real estate, healthcare, and smart cities. Ping An has also digitalized its core business with over 80% of systems hosted on a proprietary cloud and a consolidated app for all digital offerings.
	Payments	USA	Expanding the range of value-added services, specifically cybersecurity solutions, while also opening new payment flows (e.g., real-time cross border, B2B), primarily through acquisitions. Additionally, Mastercard is allowing companies to leverage its APIs through an open portal.
	Payments	USA	Expanding to an ecosystem from a single-product company. PayPal has achieved this growth primarily through acquisitions across the customer journey including product discovery (Honey), P2P payments (Venmo), POS and funding (iZettle), among others.
	Payments	USA	Transforming the business to be a "network of networks" by opening new payment flows and embedding itself in fintech and bigtech ecosystems through APIs and technology (e.g., Visa Token). Visa estimates that new flows and value-added services will account for >30% of net revenues by 2024.

BlackRock, Inc. is the world's largest asset manager, with over \$7.4 trillion in assets under management as of 2019, operating globally with 70 offices in 30 countries.

BlackRock

Founded
1988

Industry
Asset Mgmt.

Geography
United States

Revenues
\$15.7 billion

Employees
~16,200

5-year TSR
128% (3.3x)¹



CEO
Laurence D.
Fink

Expanded from an asset manager to a leading risk management and analytics provider

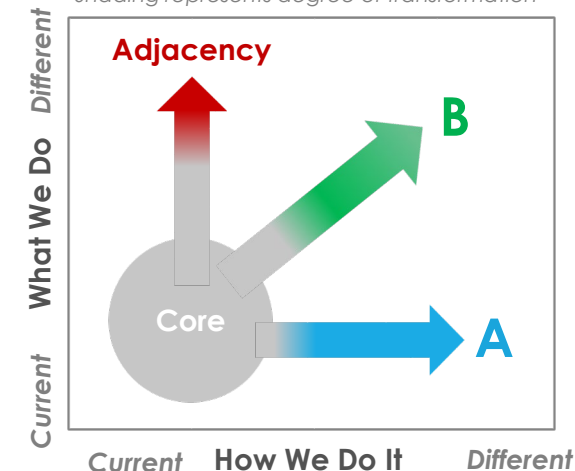
BlackRock's dual transformation approach involves: first, growing the core business with iShares ETFs, and second, developing industry-wide technology solutions.

BlackRock offers investing of over 1,000 iShares ETFs around the world. iShares (and illiquid alternatives) have generated \$895 billion of net inflows or 70% of BlackRock's organic growth over the last 5 years. Today, they represent 31% of BlackRock's AUM and 36% of BlackRock's revenue.

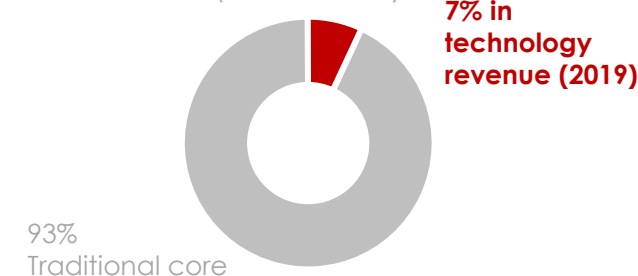
BlackRock is widening its strategic moat with a differentiated technology platform, Aladdin. Aladdin is a comprehensive solution that combines risk analytics, portfolio management, trading and operation tools on to one system. It is now found at 85 asset managers and institutional investors that have about \$20 trillion in total assets.

BlackRock has also made strategic acquisitions to strengthen its technology footing, including eFront (alternatives management software), Cachematrix (technology to simplify cash management processes) and FutureAdvisor (digital wealth manager). The CEO recently said that his goal is for Aladdin and the wider BlackRock solutions business to account for 30% of revenues in five years, compared with 7% currently.

Shading represents degree of transformation



Magnitude
(Revenue mix)



¹Total shareholder return from 2014E to December 2020; Compared to MSCI World Financials Index


JPMorgan Chase & Co.

OVERVIEW


J.P. Morgan Chase is a U.S bank with assets of \$3.2 trillion, operating corporate and investment banking, consumer banking, commercial banking and asset & wealth management divisions.

JPMorganChase 

 **Founded**
1871¹

 **Industry**
Diversified
Bank

 **Geography**
United States

 **Revenues**
\$98 billion

 **Employees**
~257,000

 **5-year TSR**
154% (3.9x)²



TRANSFORMATION

Expanding from a bank to a provider of blockchain-powered technology solutions

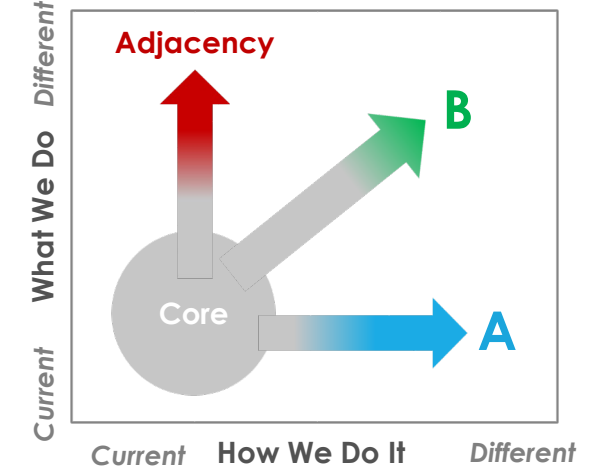
J.P. Morgan's approach involves leveraging technology to digitalize the core and to create industry-wide blockchain powered solutions.

The firm is increasing efficiencies through several pathways, including using agile tech processes, expanding API functionality, using AIML and natural language processing and developing a private cloud. JPM is also launching a digital-only bank in the UK in 2021.

JPM has developed leading blockchain based solutions Liink and JPM coin, now under the umbrella of Onyx – a new technology business unit at the bank. Liink, formerly called Interbank Information Network, is a platform (a mutually accessible ledger) on which 400+ leading institutions are putting information about cross-border payment transactions to cut down on delays. JPM aims to expand Liink into a global payments vehicle that delivers same-day settlement for consumers and businesses. The JPM Coin, which is a digital coin transferable over blockchain between accounts, is also now live.

JPM has spent \$11.5 billion on technology initiatives, highest compared to peers. The technology spend is split 50-50 between core processes and new growth initiatives, compared with 70-30 five years ago.

Shading represents degree of transformation



Magnitude
(# of clients)

400+

institutions using *Liink*
(2019)

¹Merged with Chase Manhattan Bank in 2000 ²Total shareholder return from 2014E to 2019E; Compared to MSCI World Financials Index

Sber is a state-owned Russian banking and financial services company with top share in loans and deposits, both in retail and corporate and investment banking.



CEO
Herman Gref

Founded 1991	Industry Diversified Bank	Geography Russia	Revenues \$23.3 billion	Employees ~281,000	5-year TSR 459% (11.8x) ¹
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Transforming from a bank to an ecosystem of financial and non-financial services

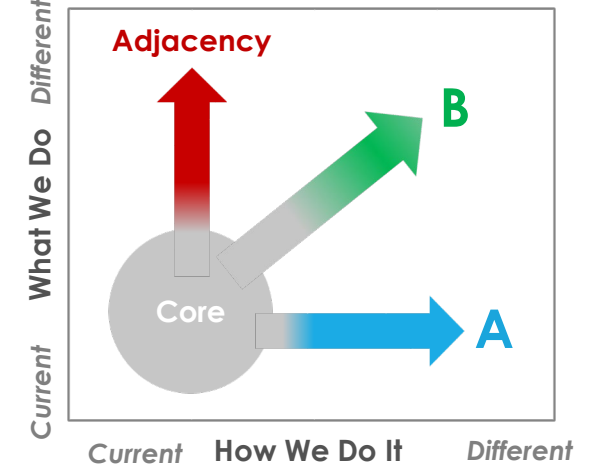
Sber aims to expand its financial services business by growing beyond core banking, and also looks to diversify into non-financial services. High potential for cross-selling is a key strategic pillar behind this aspiration and is bolstered by the >98 million active retail client base and vast distribution network.

The firm is targeting adjacent businesses, such wealth management given strong retail investment market and growing demand for ETFs and mutual funds. Sber is looking to disrupt the insurance market, with a focus on life insurance.

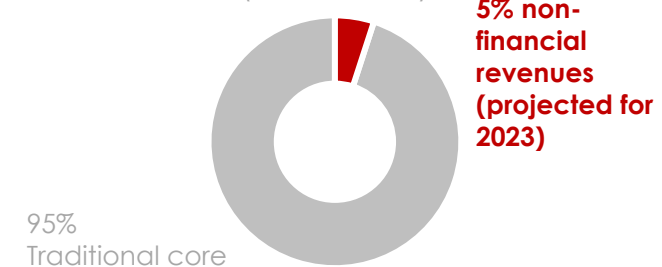
Sber is aggressively expanding to non-financial ecosystems. Sber's JV with Mail.ru provides access to the foodtech and mobility ecosystem with food-delivery services, car sharing, e-grocery, among others. The acquisition of Rambler group provides video streaming services, media assets and media and ticketing services. Other platforms such as DomClick.ru (real estate), SberMobile (MVNO), are some of the key focus areas. Sber is also building an e-commerce platform in-house, with the goal of capturing 9% market share in Russia by 2023.

With ambitious growth plans, Sber aims to drive the share of non-financial services to 60% of revenues and 30% of total operating income by 2030.

Shading represents degree of transformation



Magnitude
(Revenue mix)



¹Total shareholder return from 2014E to 2019E; Compared to MSCI World Financials Index

AIA Group Limited is a Hong Kong multinational insurance and finance corporation, one of the largest publicly listed life insurance and securities group in Asia-Pacific.



Founded
1919

Industry
Insurance

Geography
Hong Kong

Revenues
\$43.1 billion

Employees
~23,000

5-year TSR
104% (2.7x)¹

Expanding from an insurance provider to a health and wellness company

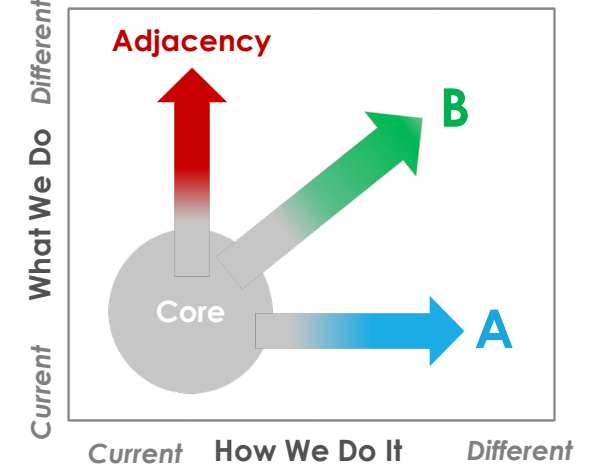
AIA Group's transformation has taken the life insurance company into the vast health and wellness space with the Vitality platform, that provides wellness, prevention knowledge, tools and motivation to AIA members. Results in early 2020 shows positive outcomes from AIA Vitality for the 1.7 million members.

While initially being focused on Vitality, AIA's aspirations in the regional health and wellness space have become more ambitious. Through partnerships and JV's primarily, AIA is developing a regional platform to service patients, payers and providers with solutions such as digital healthcare, medical case management, and on-demand telemedicine.

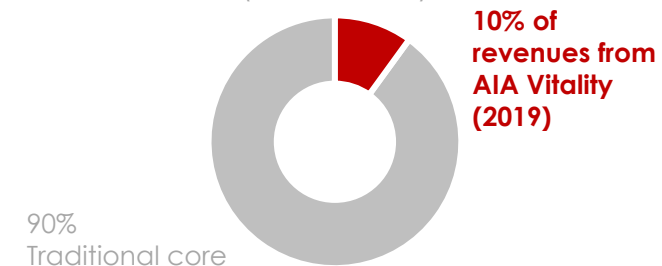
Relationships established from 2018-2020 include digital healthcare platforms (WeDoctor in China, Practo in India, MyDoc in Singapore), medical case management solutions (Medix in Australia, Hong Kong, India, and SEA), on-demand telemedicine (WhiteCoat in Singapore), and most recently, a behavioral-science driven personal health platform (Holmusk in Malaysia).

Finally, expansion into China in a major growth opportunity for AIA and can become the most important market in 2022, surpassing Hong Kong.

Shading represents degree of transformation



Magnitude
(Revenue mix)



¹Total shareholder return from 2014E to 2019E; Compared to MSCI World Financials Index

Ping An

OVERVIEW

Ping An Insurance (Group) Company of China, Ltd. provides financial products and services for insurance, banking, asset management, and fintech and healthtech businesses in China.

中国平安
PING AN
保险·银行·投资


 **Founded**
1988

 **Industry**
Insurance

 **Geography**
China

 **Revenues**
\$186.9 billion

 **Employees**
~372,200

 **5-year TSR**
159% (4.1x)¹



CEO
Ma Mingzhe

TRANSFORMATION

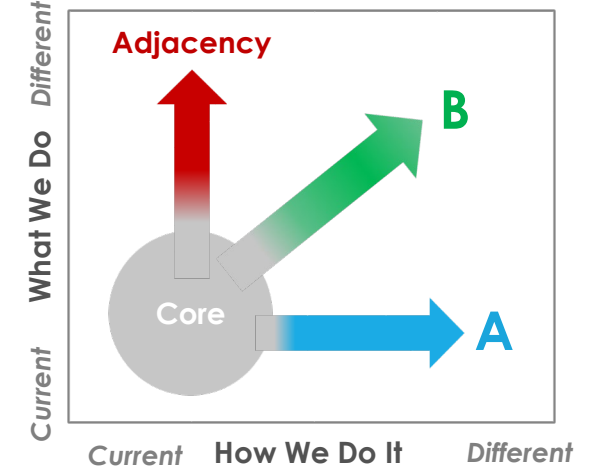
Transforming from an insurer to a wealth manager, health advisor and life assistant

Ping An has evolved from a pure P&C insurance company into an integrated ecosystem. Ping An's dual transformation approach involved first, undergoing customer-centric digital transformation and second, embedding itself into the customer's life by creating digital ecosystems.

Ping An invested heavily into AI, blockchain and cloud and leveraged these technical capabilities to digitalize its core businesses. Over 80% of core business systems are hosted on Ping An's cloud computing platform. Ping An launched the OneAccount which consolidated all its offerings into a digital app. OneAccount resulted in a 2x increase in Ping An's customer base within 3 years.

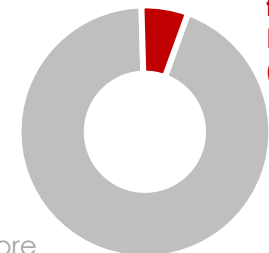
Ping An has created different business models around auto, finance, real estate, healthcare, smart cities. Ping An has launched Lufax (financial marketplace), 1QianBao (e-wallet), Ping An HaoFang (real estate platform), Ping An Health (healthcare ecosystem), OneConnect (fintech SaaS provider), AutoHome (automobile e-commerce services provider), among others over the last 8 years. Ping An's ecosystems boast of a total addressable market of ~\$100 trillion with majority of the companies providing significant revenue growth.

Shading represents degree of transformation



Magnitude
(Net profit)

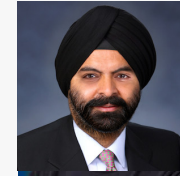
6% of net profit
from fintech and
healthtech
(2019)



94%
Traditional core

¹Total shareholder return from 2014E to 2019E; Compared to MSCI World Financials Index

Mastercard is a financial services corporation that provides transaction processing and other payment-related products and services in the United States and internationally.



CEO
Ajaypal
Singh Banga

Founded
1966

Industry
Payments

Geography
United States

Revenues
\$15.6 billion

Employees
~18,600

5-year TSR
258% (6.6x)¹

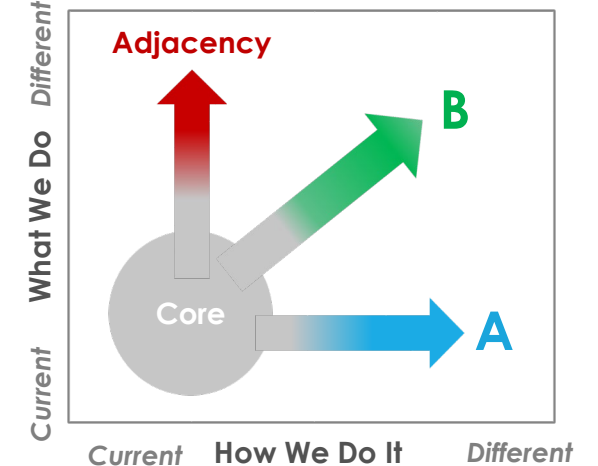
Opening new payment flows and expanding the services businesses

Mastercard is expanding its core business by leveraging partnerships and opening new payment flows (e.g., real-time cross-border, B2B). It is also exploring new avenues for growth from its service business, specifically cybersecurity solutions.

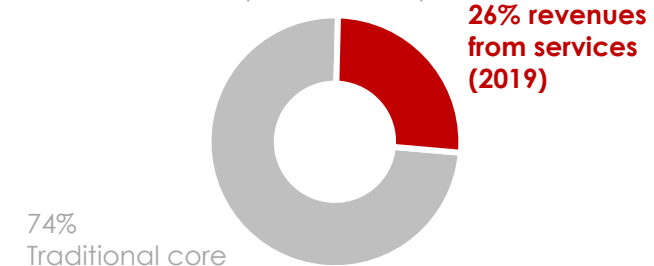
Mastercard has partnerships with several fintech and big tech firms, including over 60 digital bank card relationships in Europe (e.g., Monzo, Revolut, N26). On new payment flows, Mastercard acquired VocaLink (real-time account-based payment infrastructures) and Transfast (cross-border money transfer network). Mastercard Track product is giving a further push to its B2B payments volume.

Mastercard's service business helps establish the company as a provider of comprehensive payment solutions. Mastercard has increased its focus on cybersecurity solutions and fraud analytics, both through acquisitions and in-house initiatives. Acquisitions include NuData Security (mobile payment security using biometrics), Brighterion (fraud prevention using AI), Ethoca (fraud solution for e-commerce) and RiskRecon (cybersecurity). Mastercard has also developed propriety security solutions including ThreatScan, an AI-powered cybersecurity solution for banks and Decision Intelligence, fraud scoring technology. Services currently comprise 26% of revenues and are expected to grow steadily.

Shading represents degree of transformation



Magnitude
(Revenue mix)



¹Total shareholder return from 2014E to 2019E; Compared to MSCI World Financials Index

PayPal


OVERVIEW

PayPal Holdings, Inc. operates as a technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide.

 **Founded**
1998

 **Industry**
Payments

 **Geography**
United States

 **Revenues**
\$20.3 billion

 **Employees**
~21,800

 **5-year TSR**
195% (5x)¹



TRANSFORMATION

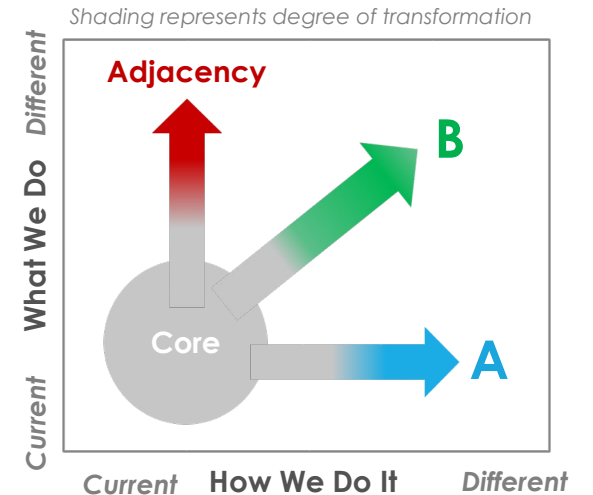
Transforming its business model to develop a financial services ecosystem worldwide

PayPal is transforming from a single product company to an ecosystem for its global two-sided network of merchants (23 million) and consumers (300 million).

On the merchant front, PayPal has acquired Braintree (eCommerce merchant acquiring), iZettle (SMB POS solution in Europe and Latin America across 12 markets), Simility (fraud prevention and risk management), and Hyperwallet (payout platform). Braintree is a key growth driver and is estimated to contribute ~33% of revenue and ~50% of growth in 2020.

On the consumer front, PayPal has acquired Venmo (P2P payments) and Xoom (money/remittances transfer). It has also acquired Honey, allowing PayPal to be involved with the consumer at the beginning of the online shopping experience (i.e., product discovery, offers, loyalty) instead of being just a payment option at the conclusion of an online purchase.

PayPal has also signed more than 40 agreements since 2016 with payment providers (Visa, Mastercard), large technology platforms (e.g., Google, Facebook, Uber, AliExpress), retailers (e.g., Walmart), financial institutions (e.g., Citi, Bank of America,). The company is using this partnership approach to secure positioning and drive further growth.



Magnitude

(\$ spent on acquisitions)

~\$7Bn

in acquisitions
(2018-2020)

¹Total shareholder return from 2015 (after eBay spinoff) to 2019E; Compared to MSCI World Financials Index

Visa Inc. operates as a payments technology company worldwide and facilitates digital payments among consumers, merchants, businesses, strategic partners, and government entities.



CEO
Alfred F Kelly Jr

Founded
1958

Industry
Payments

Geography
United States

Revenues
\$21.8 billion

Employees
~19,500

5-year TSR
197% (5.1x)¹

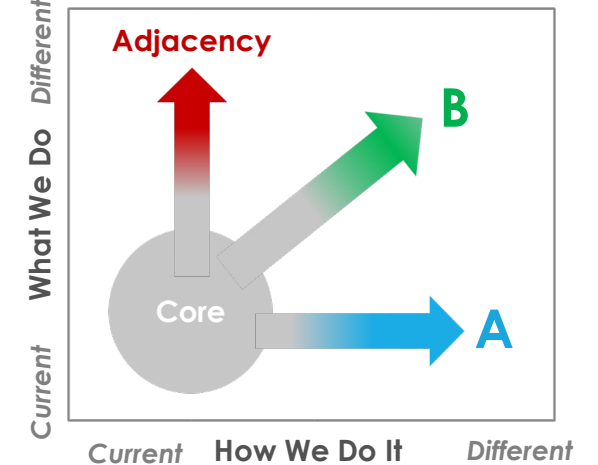
Transforming to a “network of networks” and expanding value-add services

Visa aims to be a single point of connection for transactions globally, whether it's on the Visa payments network or beyond, through its “network of networks” strategy. The company is also increasingly focusing on revenue growth from value-add services.

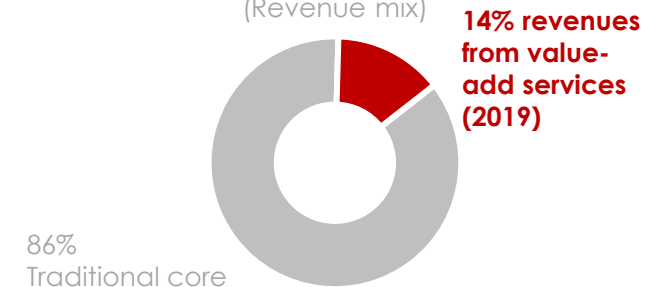
Visa is well-positioned to unlock \$185 trillion of new payment flows through various platforms including Visa Direct (real-time transfer) and B2B connect (account-to-account transfer) and acquisitions such as Earthport. Visa is also embedding itself in the ecosystems of big tech firms through tokenization services. Visa Token is being used by Apple Pay, Google Pay, Netflix and Samsung Pay. The service is live in 100 markets with 410 million tokens issued.

Visa value-added services including data-processing, issuer & consumer solutions, acquirer & seller solutions, security & identity, and consulting and analytics are top drivers of growth. Visa’s new flows and value-added services revenues grew by ~17% annually from 2017-2019 versus ~10% in traditional consumer payments. Visa estimates that revenues from new flows and value-added services will account for >30% of net revenues by 2024.

Shading represents degree of transformation



Magnitude
(Revenue mix)



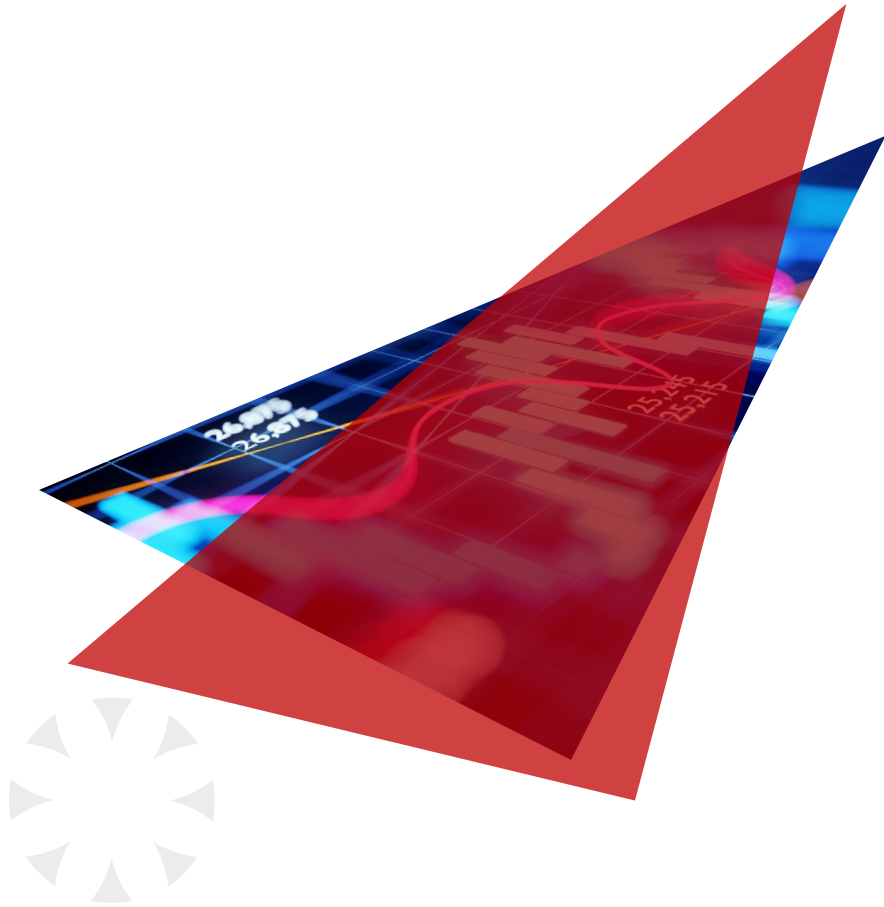
¹Total shareholder return from 2014E to 2019E; Compared to MSCI World Financials Index

TABLE OF CONTENTS

▶ THIS DOCUMENT IN CONTEXT

▶ RESEARCH RESULTS

▶ APPENDIX



Aspirants | High-performing firms with transformative initiatives

COMPANY	SECTOR	GEOGRAPHY	SEEDS OF TRANSFORMATION
Banco Bradesco S.A.	Diversified Banks	Brazil	Expanding its core business through the development the digital bank “Next” targeted at millennials, which was launched in 2017 and ended 2019 with 1.8 million customers. Bradesco has also focused on digital transformation through the implementation of Bradesco Artificial Intelligence and an open banking strategy.
Bank of America	Diversified Banks	USA	Transforming its core with acceleration of digital channels (e.g., 12 million users of Zelle P2P payments platform and 15 million active users of Erica virtual assistant). BofA has launched an API gateway and a one-stop-shop digital dashboard for business owners (among other initiatives) with its technology investments of \$10 billion.
Bank Leumi	Diversified Banks	Israel	Expanding its core business with purely digital bank “Pepper” and recently launched fractional investing application “Pepper Invest”. Leumi is also expanding beyond its core business through “Videa”, an online investment portfolio management company using robo-advice methodology.
Emirates NBD	Diversified Banks	UAE	Transforming its core business through the lifestyle digital retail bank “Liv” which has an AI-based chat bot Olivia. 93% of the bank’s transactions are being done on digital channels. Other digital products offered include Liv.Sure, a mobile insurance product and E20, a digital bank for SMEs and entrepreneurs.
PT Bank Rakyat	Diversified Banks	Indonesia	Digitalizing its core business through online solutions e.g., an online application for micro-loans, BRISpot. BRI is also developing a digital payment ecosystem for businesses from various sectors including BRIApi for e-commerce transactions (100+ partners including Lazada and Tokopedia) and Junio Smart for education.
Allianz SE	Insurance	Germany	Expanding to new businesses through Allianz X, a 1-billion-euro VC fund focused on strategic investments in digital ecosystems related to insurance e.g., mobility, connected property, connected health. Allianz is also implementing the “Allianz Customer Model” – a digitalization effort of product suites across multiple markets.
AXA SA	Insurance	France	Expanding from insurance to telemedicine and health propositions through its “Payer to Partner” strategy. AXA has made over 40 startup investments in insurtech, enterprise software, consumer tech and digital health through AXA Next. AXA is also pivoting its core business towards commercial P&C with the acquisition of XL.
Munich Re	Re-insurance	Germany	Transforming its core business by focusing on the cyber insurance space and digitalizing ERGO, its primary insurance unit by creating a direct insurance platform. Munich Re is also exploring new revenue streams through fee-based revenues from IoT devices in commercial reinsurance.

Sorted alphabetically

Usual suspects | Feature high on innovation ranking but not on our lists

COMPANY	SECTOR	GEOGRAPHY	RATIONALE FOR EXCLUSION
Banco Santander	Diversified Banks	Spain	Underperformed both compared to regional index (MSCI Europe and Middle East) and financial services peers (MSCI World Financials). Strong performance in Brazil and Argentina but weak performance overall. -33.8% TSR from Dec 2014E – 2019E
Barclays	Diversified Banks	UK	Underperformed both compared to regional index (MSCI Europe and Middle East) and financial services peers (MSCI World Financials). -15.7% TSR from Dec 2014E – 2019E
BBVA	Diversified Banks	Spain	Underperformed both compared to regional index (MSCI Europe and Middle East) and financial services peers (MSCI World Financials). -23.2% TSR from Dec 2014E – 2019E
BNP Paribas	Diversified Banks	France	Underperformed compared to financial services peers (MSCI World Financials). Performance primarily driven by innovation in the core and not by new growth initiatives. 36.5% TSR from Dec 2014E – 2019E
Credit Suisse	Diversified Banks	Switzerland	Underperformed both compared to regional index (MSCI Europe and Middle East) and financial services peers (MSCI World Financials). -34.5% TSR from Dec 2014E – 2019E
DBS	Diversified Banks	Singapore	Total shareholder return did not meet 2x outperformance criteria in the region or among industry peers. 55.6% TSR from Dec 2014E – 2019E
Goldman Sachs	Diversified Banks	USA	Underperformed both compared to regional index (MSCI North America) and financial services peers (MSCI World Financials). New growth initiatives are at very early stages to make a meaningful impact. 27.9% TSR from Dec 2014E – 2019E
UBS	Diversified Banks	Switzerland	Underperformed both compared to regional index (MSCI Europe and Middle East) and financial services peers (MSCI World Financials). -10.6% TSR from Dec 2014E – 2019E

Sorted alphabetically

Companies mentioned in interviews with industry leaders and highlighted in the Capco institute journal of financial transformation (Howard Yu)

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19



INNOSIGHT
STRATEGY AND INNOVATION AT **HURON**



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