

FROM HYPE TO ACTION

Digitalization of the financial services
industry in the Nordics



The banking industry is constantly changing, accelerated not the least by a global pandemic that few people anticipated. Itera has created this trend report to get a readout on the key factors driving the financial industry in the Nordics, with a Norwegian emphasis.

Itera is passionate about the banking and financial services industry. We stay on top of trends and ongoing developments, discussing everything from events of Earth-shattering significance to the smallest, seemingly insignificant details. We actively seek out new knowledge, working to screen out the noise in order to understand the big picture. We put the international trends into a Norwegian and Nordic context and actively apply what we've learned from other industries.

Fintech is a "buzzword" that's here to stay, and definitions abound when it comes to the exact meaning of the term. Most people agree that it's about financial technology, but when we talk *about the new versus the old*, it often becomes a topic of heated debate. In this report, the term "fintech" is used as a collective term that applies not only to agile start-ups, but also to more mature, established companies in the financial services industry. Because in the Nordics, well-established companies have demonstrated that they have the flexibility and moxie to keep pace with fast-growing young companies.

This report is based on several discussions with movers and shakers in the industry, in addition to the experience we've gained implementing digitalization across the banking industry in collaboration with our customers. In addition, our insights are based on continuous monitoring of the banking sector via Cicero Consulting, Itera's wholly-owned analytics company in the banking and insurance sectors.

We would like to share these insights with you not because we have all the answers, but because we think you care about the same things we do and can help enrich the debate. We hope that you enjoy reading this, and that you won't hesitate to get in touch if you have any questions or suggestions or are just chomping at the bit to provide your two cents.

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In this report, we take a look at the key factors that we believe you will see shaping the Nordic financial industry in the upcoming decade - regardless whether you're working in a large bank like Nordea or a community bank like Frøs Sparekasse.

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Borderless sectors

Ongoing sectoral shifts are encouraging new competitors from outside the financial services industry to target attractive parts of banks' value chains. This presents a completely new challenge. The airline Norwegian has been tremendously successful with its consumer lending bank, while Coop's payment app has attracted hundreds of thousands of users. Maybe it's just a matter of time before Starbucks becomes everyone's bank of choice?

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Unique customer experiences win the day

Thanks to a significant amount of restructuring and the closure of many branches, in recent years, the banking industry has transitioned to digital solutions where customers increasingly help themselves. Self-service will continue to increase going forward, but in the future, digitalization will demand more from the banks than in the past, and the standard will be set by companies outside the financial services industry.

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No business without data

Banks are sitting on a large amount of customer data, which is the main reason why more fintech and BigTech companies are now investing in payment solutions. These services benefit these companies by really drilling down on the level of personalization that banks and other stakeholders can achieve through transforming generic data into valuable insights.

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Security at all levels

Today, "everything" needs to be connected to the Internet, and digital services and "big data" will be essential to all businesses. Then, a high level of IT security is no longer just an option, it's a necessity. Banks must therefore go above and beyond statutory requirements and regulations. And not everyone will succeed.

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Sustainability at all costs

The financial services industry is what greases the wheels of society, and we're now speeding toward a decade where sustainability will be front and center. This means that banks will assume a large share of the burden in ensuring that we move in a sustainable direction. But it's easy to lose the forest for the trees.

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Christoffer Hernæs's take

There is a broad consensus in the industry that technology is about more than just reducing costs. The customer needs to be the focus, data is the new currency, and the next generation of customers will have completely different expectations of what a bank should be. But banks still have a long way to go. Christoffer Hernæs has been given free rein to make his voice heard on the last page.

/ Borderless sectors

Increasing competition across the board

Ongoing sectoral shifts are encouraging new competitors from outside the financial services industry to target attractive parts of banks' value chains. This presents a completely new challenge. The airline Norwegian has been tremendously successful with its consumer lending bank, while Coop's payment app has attracted hundreds of thousands of users. Maybe it's just a matter of time before Starbucks becomes everyone's bank of choice? or Facebook becomes the preferred platform for P2P payments?

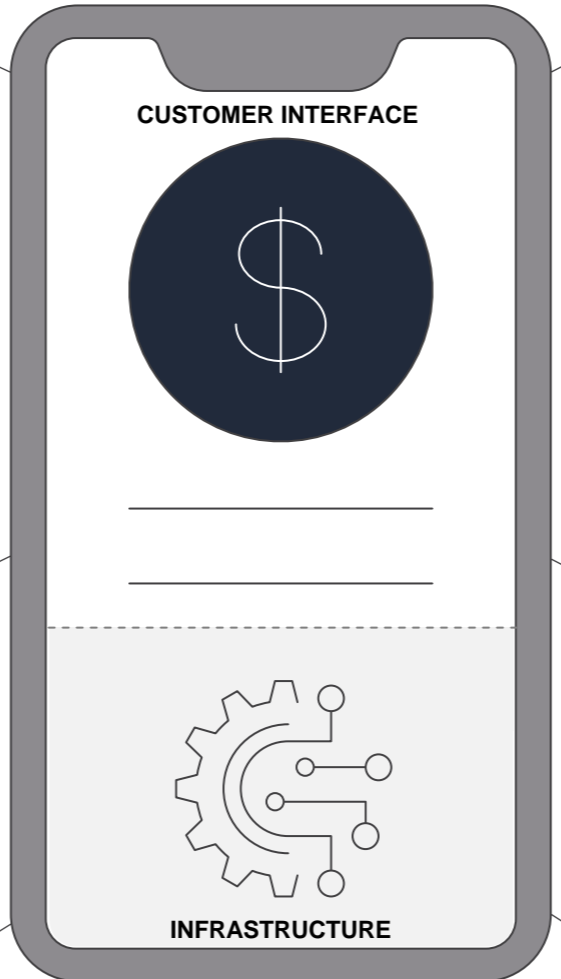


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– IT'S A CHALLENGE FOR ALL ESTABLISHED BANKS THAT MINOR COMPETITORS ARE ENTERING THE MARKET AND OUTCOMPETING THEM IN A SMALL PART OF THEIR SERVICE SPECTRUM

Knut Anders Wangen
Commercial Director of Danske Bank Norway

EXAMPLES OF FINTECHS IN NORWAY

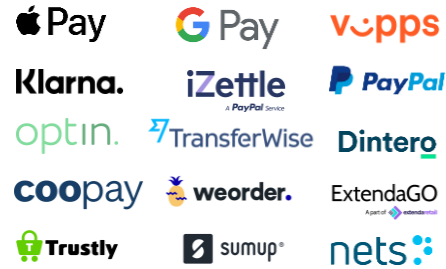


RETAIL BANKING AND PAYMENTS

Neobanks



E-commerce, mPOS, and payments



Personal finances



Corporate banking and accounting



LOANS AND CREDITS

Corporate financing



Consumer financing

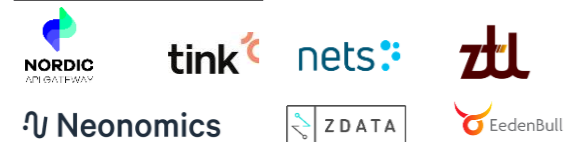


CORE BANKING AND PAYMENT SOLUTIONS

Core banking solutions and banking-as-a-service



PSD2 and business payments



ACCOUNTING AND FINANCIAL MANAGEMENT

White label ERP



Subscription management



Receipts



Credit and finance



CROWDFUNDING

Equity



Loans



Donations and rewards



Consumer loans



SAVINGS AND INVESTMENT

Savings



Investment



REGTECH, DATA, AND IDENTITY

AML and KYC



Data and analysis



Creditscoring



Identity and signatures

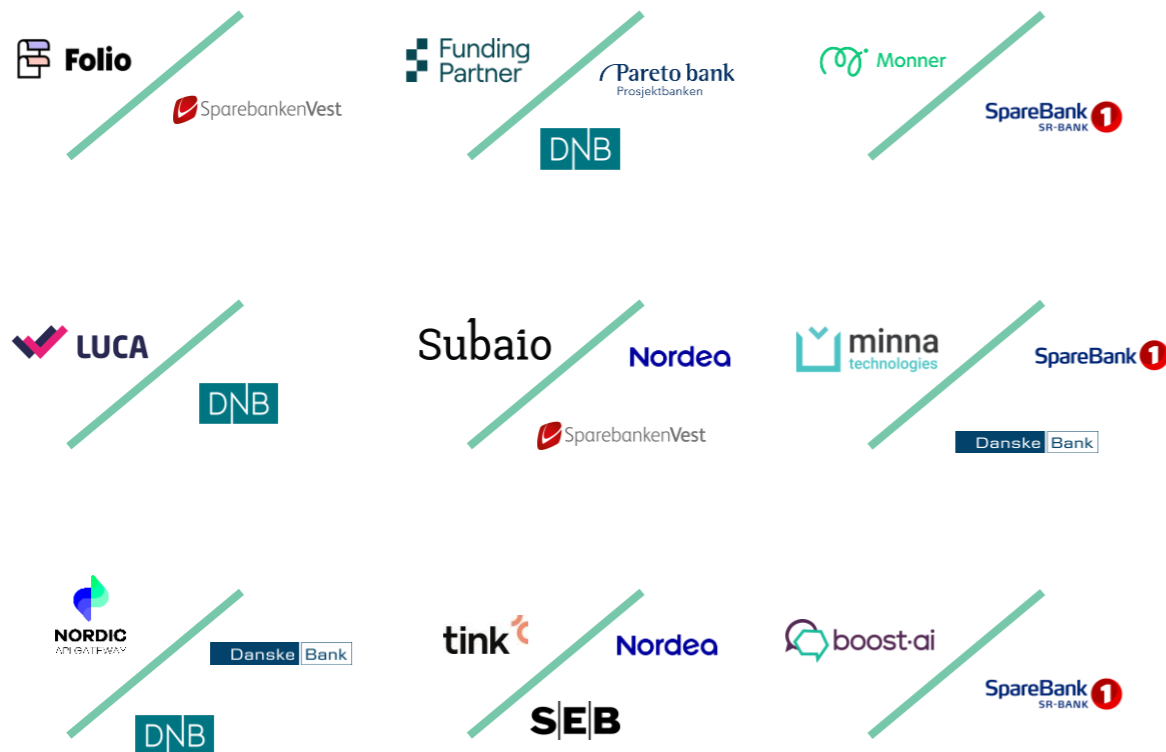


THE BANKS ARE UNIQUELY SITUATED FOR PARTNERSHIPS

Before, the motto was “Never change a winning team.” Now it's continuous change that's the word of the day. Stakeholders, business models, and methods of distribution are all changing at a lightning pace.

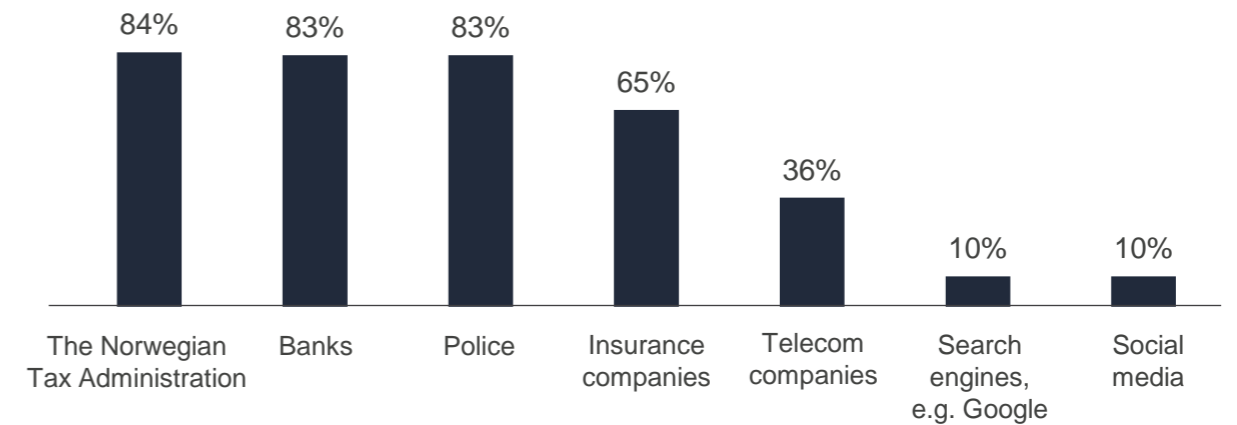
What we buy and who's selling it is not as important as how the services and experiences are purchased. Consumers focus more on utility than the enjoyment of ownership. This will affect how banks can deliver their services in the future. We are predicting a clear shift towards more collaboration and co-creation between banks and other stakeholders in the coming years.

Examples of collaboration between fintech companies and established banks



Trust is one of the most important competitive advantages of Norwegian and Nordic banks. This high level of trust is the main reason why the banks should increasingly explore new partnerships – it's in their customers' best interest.

Percentage of Norwegians with a moderate or high level of confidence in the way the following entities store and use personal information



- THE FIRST FINTECH WAVE HAS TAUGHT US THAT THE PARTNERSHIP MODEL WITH THE ESTABLISHED BANKS IS THE WAY TO GO.

Anine Ragnif
Chief Operating Officer at Itera

Source: The Norwegian Data Protection Authority's 2019/2020 Privacy Survey ("Personvernundersøkelsen 2019/2020")

/ Unique customer experiences win the day

World-class customer experiences

Thanks to a significant amount of restructuring and the closure of many branches, in recent years, the banking industry has transitioned to digital solutions where customers increasingly help themselves. Self-service will continue to increase going forward, and in the future, digitalization will demand more from the banks than in the past. Customer will come to expect seamless, immediate and no-fee transactions. Since the overall experience will be shaped by other competitors from outside the financial services industry, the banks can learn a lot from studying the services of companies like Spotify and Netflix.



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– IN NORWAY, WE HAVE A DIGITAL BACKBONE, AMONG OTHER THINGS THROUGH THE BANKS' COMMON STANDARDS THAT SOLVED MANY CHALLENGES IN THE 1990S. THIS HAS HELPED US TO BE THE FIRST IN THE WORLD IN A LOT OF AREAS – NOT JUST IN BANKING

Rasmus Figenschou

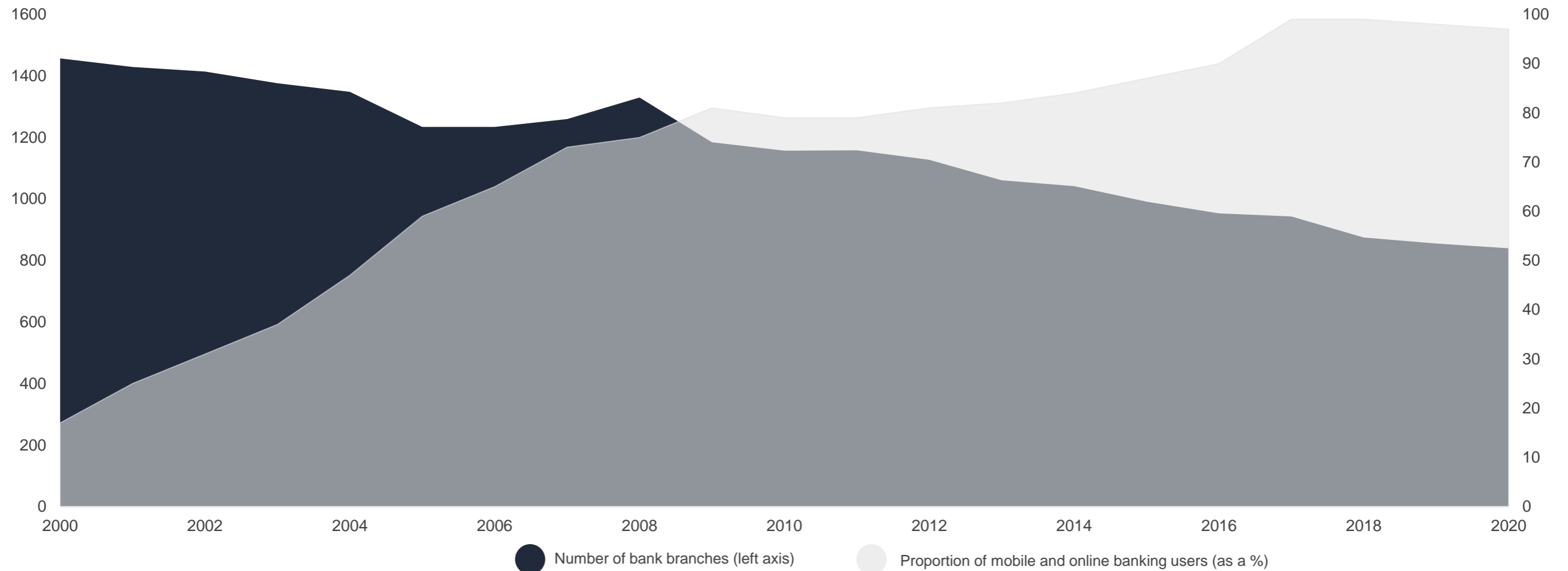
Executive Vice President, Payments & Innovation at DNB

From cost-cutting initiatives to unique customer experiences

At the beginning of the 2000s, one in four Norwegians visited the bank in person on a weekly basis. Now the percentage of people who never visit a bank branch has risen to 29 per cent, while “everybody” uses online and mobile banking.

THE CORONAVIRUS PANDEMIC HAS ACCELERATED THE DIGITAL TRANSFORMATION. WE ANTICIPATE MORE BRANCH CLOSURES, AND BANKS MUST THEREFORE COME UP WITH COMPLETELY NEW, INNOVATIVE SOLUTIONS THAT MEET USERS' EXPECTATIONS.

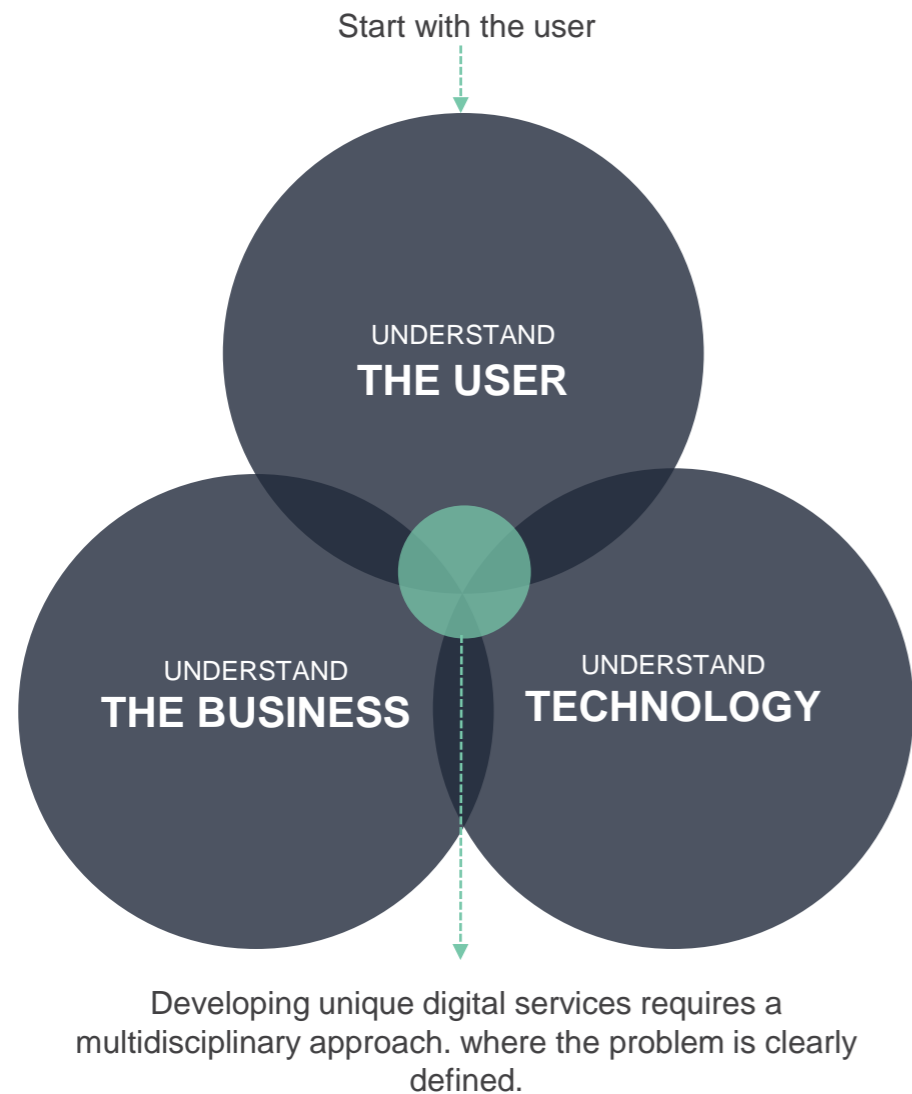
Development in the number of branches and use of mobile/online banking since 2000



Source: Bank branch register ("Bankplassestellet")/Cicero estimate, 2020 Consumer and Financial Trends ("Forbruker- og finanstrender 2020"), Kantar TNS and Finans Norge

Design-driven innovation is about solving real problems for users. A service that does not solve an actual problem for the user will rarely be embraced.

A user-centric methodology and multidisciplinary team of designers, technologists, and business developers can often lay the groundwork for the best possible services to address customers' needs, take advantage of technological opportunities, and add value to the banks' businesses.



One of the four product principles that Vipps is based on relates to the importance of understanding the customer. This principle states that Vipps should identify the customer's main needs, take away anything that's unnecessary, and that services should only be launched when you know that they make things simpler. The end result should be that the user finds the solution completely straightforward – which is the company's promise to customers.

New technologies are paving the way for the delivery of new customer experiences, while provoking changes in customer behavior. Our experience suggests that to achieve the best results, design-driven innovation projects require multidisciplinary teams with clearly defined challenges. Give designers, content producers, developers, and the product owner the empowerment to make quick decisions and implement continuous changes. Lay the groundwork so that your organization can continuously adjust concepts and solutions on the fly rather than adhere to a rigid decision-making basis.

Customers' expectations for stress-free user experiences and services are defined by companies from outside the banking industry. If banks are to succeed in creating unique digital customer experiences, they must be extremely ambitious, with a low margin for trial and error.



**–DESIGN-DRIVEN
INNOVATION PROJECTS
REQUIRE
MULTIDISCIPLINARY
TEAMS WITH CLEARLY
DEFINED CHALLENGES.**

André Nymoen
Chief Experience Officer at Itera

/ No business without data

Data can tip the scale

The fight for customers has never been tougher. Incumbent banks and financial institutions now compete against FinTechs and global BigTechs. And access to valuable data is key.

Banks have large amounts of customer data, but we have the benefit of seeing services that really show the level of personalization the banks can achieve through transforming generic data into valuable insights.



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**- IN THIS ONGOING EVOLUTION, THE
NEXT PHASE IS TO MAKE BANKS MORE
DATA-DRIVEN AND MORE OPEN TO
INCORPORATING ARTIFICIAL
INTELLIGENCE INTO THEIR SERVICES**

Tina Rellsve
Director, Enterprise Commercial at Microsoft

We're going into a data-driven future

Data has gone from being considered simply a by-product of operations to being extolled as the most important asset of many companies. It's no longer just the domain of the IT department, but now affects the entire organization.

Reasons why a data revolution has been forecasted



The **amount** of available data continues to increase significantly...



...while at the same time, **processing** data has become cheaper and quicker than ever.

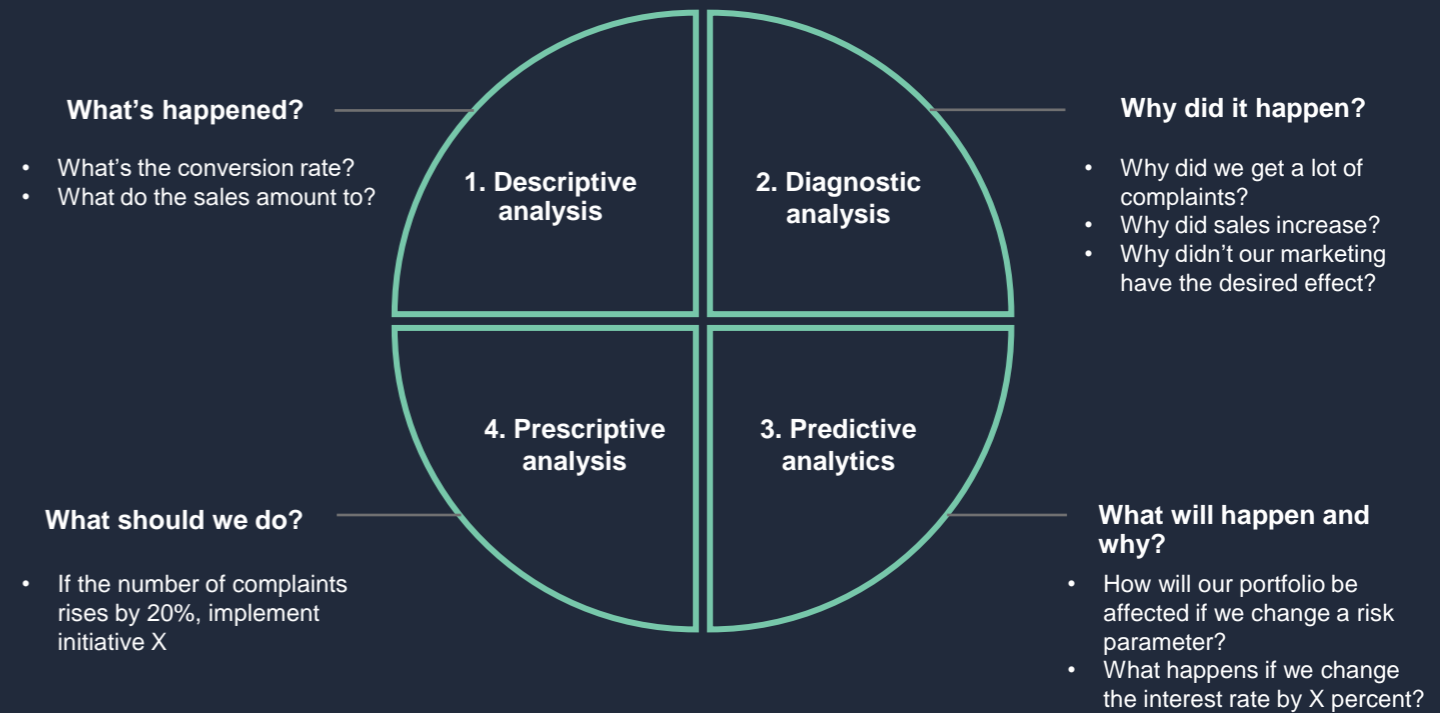


When **analytical techniques** also continue to become more and more accessible



...the overall **value potential** increases and reinforces the incentive to become more data-driven.

Types of data analysis



Smarter use of data

A survey conducted in 2019 by Cicero Consulting, an Itera company, showed that over three in ten Norwegians are willing to share information about their patterns of consumption in order to receive better services. Among the younger age groups, nearly half are willing to share information about their behavior in exchange for more customized services.

46%

...of Norwegians aged 18 to 39 are willing to share information on their consumption patterns with their bank in order to receive better services.

Banks are sitting on large amounts of customer data, and could benefit from services that really drill down on the level of personalization that can be achieved. The banks have all the prerequisites in place since their customers are willing to share data – but this trust must be managed with care.

Beyond the use of data for customer interactions, banks have the opportunity to effectively use data in their internal processes and solutions.

To become a data-driven organization, work in several areas is needed

The path to becoming data-driven is complex. It's not enough to simply experiment here and there with machine learning. In order to succeed in creating a data-driven organization, you need to address several areas.

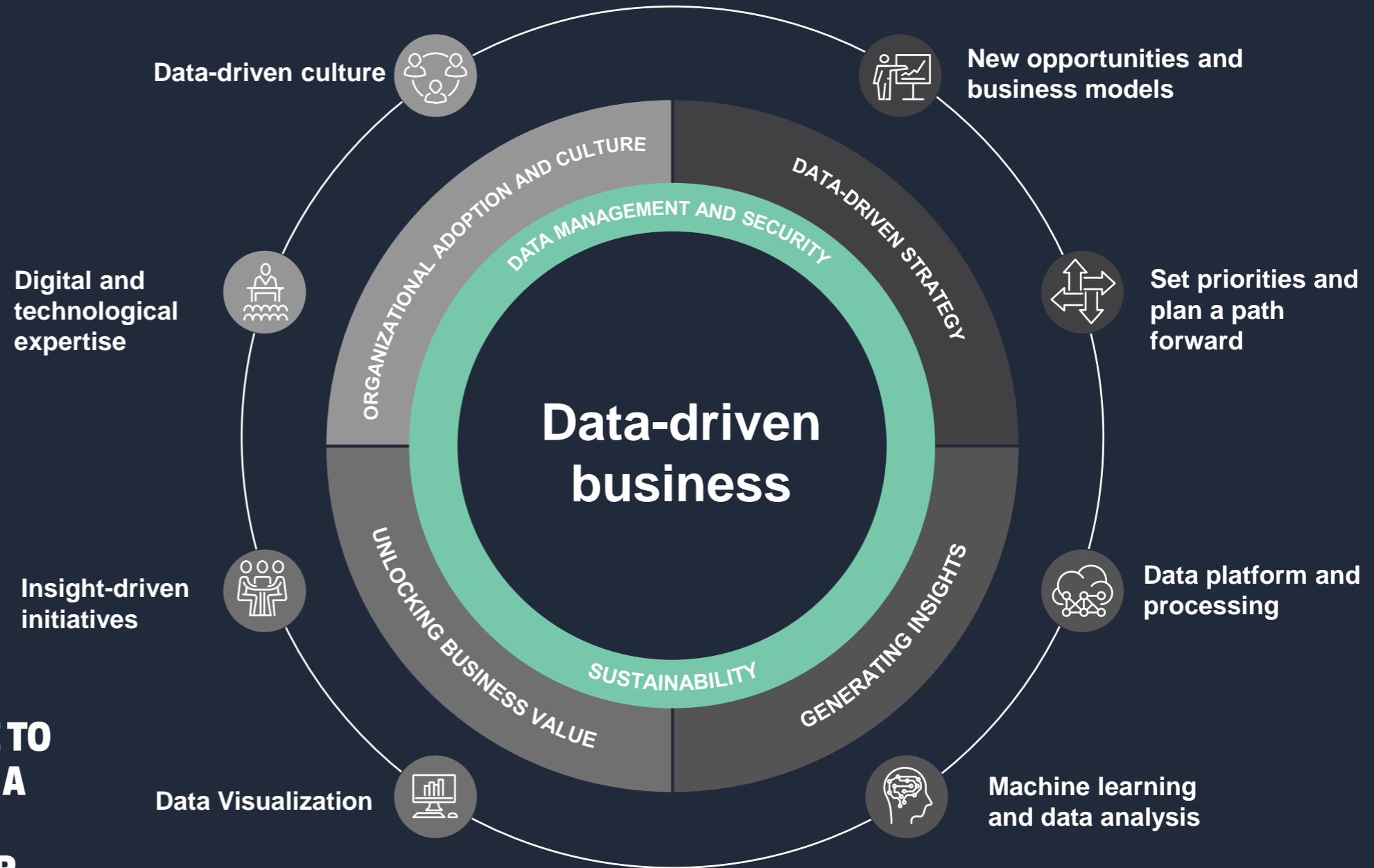
Our experience shows that companies can easily implement minor initiatives to solve specific issues, but if they want to become truly data-driven, the big picture is critically important.



– BUSINESSES THAT ARE UNABLE TO CHANGE NOW WILL STRUGGLE IN A DATA-DRIVEN FUTURE CHARACTERIZED BY EVER FASTER CHANGES

Fredrik Prøsch Hage
Senior Business Consultant and Data-driven Business Lead

Itera's data-driven business model



/ Security at all levels

IT security is hygiene

Today, "everything" is to be connected to the Internet, and digital services and "big data" will be essential to all businesses. Then, a high level of IT security is no longer just an option, it's a necessity. The paradox is that the Internet is not designed, and was in fact never designed, with built-in security. Banks must therefore go above and beyond statutory requirements and regulations. Security must always be present, both digitally and physically. Security at all levels is not about the individual levels, but rather the total chain that those links comprise.

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-THE BIG CHALLENGE THAT NEEDS TO BE SOLVED IS HOW BANKS ENSURE THAT THEY ARE ABLE TO BUILD END-TO-END DIGITAL VALUE CHAINS THAT ARE COMPLIANT, SECURE AND WITH OPTIMIZED PROCESSES

Jarle Holm
Co-Founder and CEO at Monner

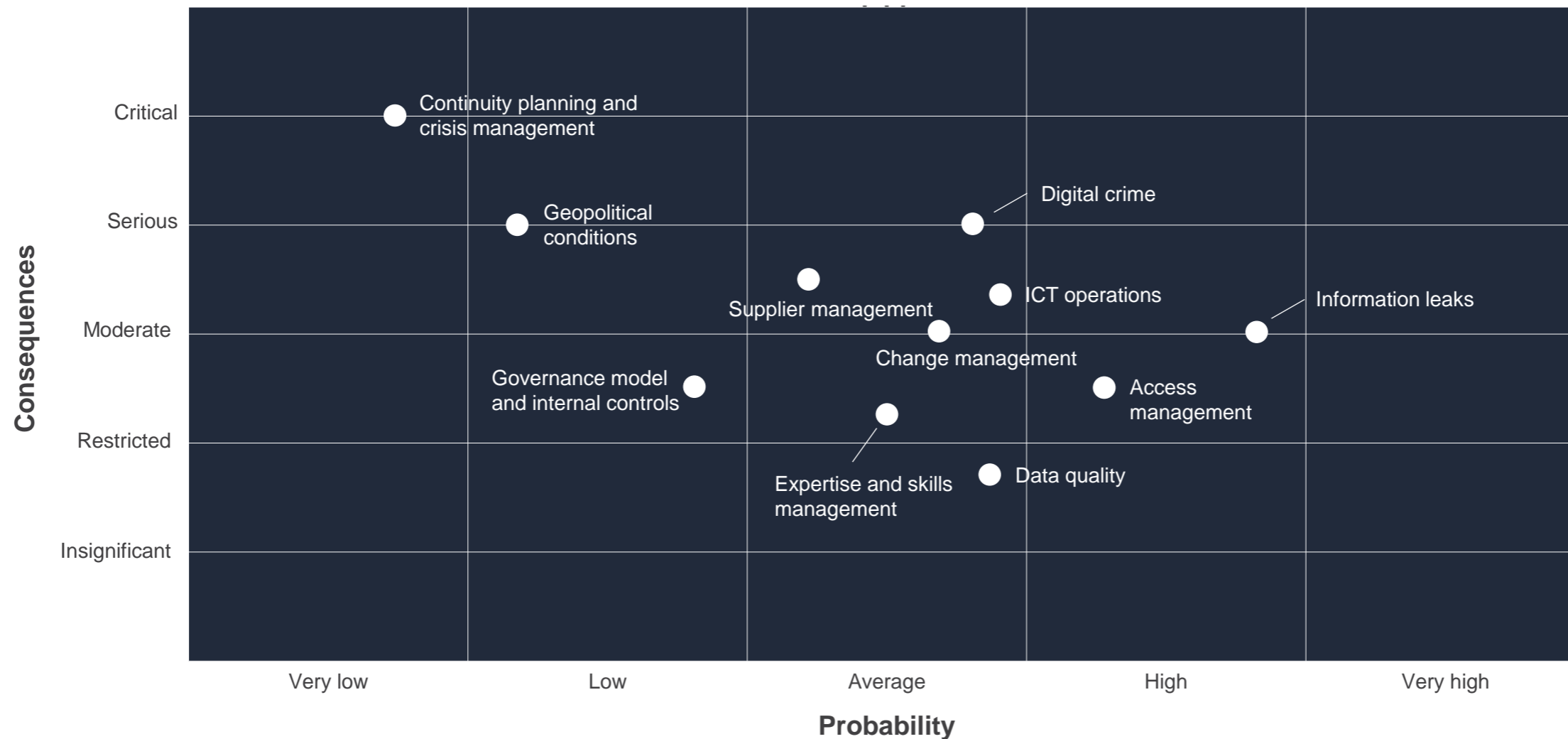


SAFE AS FORT KNOX

The Financial Supervisory Authority (FSA) of Norway characterizes the financial infrastructure in Norway as robust. In relation to companies' use of ICT resources, however, the FSA characterizes the multiple vulnerabilities associated with both ICT operations and defensive measures employed against digital crime and information leaks as the foremost threats.

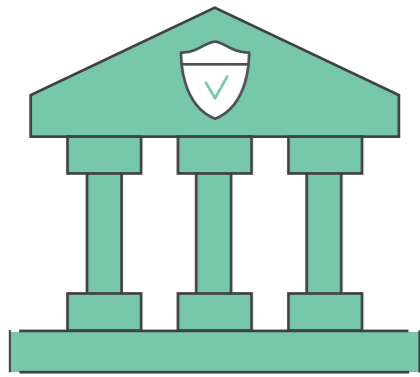
THE FINANCIAL INFRASTRUCTURE IN NORWAY IS SOLID, BUT WE'RE NONETHELESS VULNERABLE TO THINGS LIKE DIGITAL CRIME AND INFORMATION LEAKS

The FSA's assessment of risk with respect to vulnerabilities and threats inherent in companies' ICT



Source: 2020 Risk and vulnerability analysis ("Risiko- og sårbarhetsanalyse 2020"), The Financial Supervisory Authority of Norway

Security and compliance challenges are a managerial responsibility, and must be integrated into all functions, and not be a way station in the form of a few quick checklist items at random points along the road or at the conclusion of the project. Security and compliance management is about building a culture where this becomes part of every employee's DNA.



The financial services industry is primarily all about managing risk in the best possible way. And this involves a much broader perspective than just financial risk - executives need to focus on everything from hacking and IT system risks to customer risks to climate risks and other external factors affecting the business. Guaranteeing something is “safe as Fort Knox” has therefore become much more exhaustive and complex than it was just a few years ago.

Risk management balances on three pillars:



Business operations (products, projects, IT, profitability)



Legal conditions (regulatory, jurisdictional, and self-instructed requirements)



Trust from both customers and the authorities (reputation)

Bank security is about much more than whether customers are able to repay their loans. In recent years, the focus on security has grown sharply, both for employees and corporate directors. Digitization has led to an increased focus on compliance, the GDPR, firewalls, code development routines, documentation, security testing, cybersecurity, and much more.

While it will never be possible to guarantee that a financial system is 100 percent secured from attacks or misuse (people do make mistakes), with the right tools and skills, it will be possible to assess the probability and consequences of various risks.

“Hands in the air, give me all your money” is no longer a real threat, but banks must not lose sight of the work that went into combating robbery. Today, in a broad sense, security is about constantly working to combat the risk of unforeseen events occurring. Security is about “what” we do and “why” and “how” we do it.



- SECURITY AND COMPLIANCE MUST BE INTEGRATED INTO ALL FUNCTIONS AND NOT BE A WAY STATION IN THE FORM OF A FEW QUICK COMPLIANCE CHECKS SOMEWHERE ALONG THE ROAD.



Tor Ståle Hansen
CISO & CRO, Idera Group

/ Sustainability at all costs

The responsibility of the financial services industry

The financial services industry is what greases the wheels of society, and we're now speeding toward a decade where sustainability will be front and center. This means that banks will assume a large share of the burden in ensuring that we move in a sustainable direction. This is both in the interest of the bank itself and its customers.

Climate change is a social challenge and a threat to financial stability. For the banks, sustainability strategies are therefore both an important part of risk management and a necessary ingredient for sales growth. We believe that the financial industry must play a key role in the green transformation that the world is currently facing.

A woman with her hair in a bun, wearing a grey blazer, is shown in profile, looking out a window. Her hand is resting on her chin in a thoughtful pose. The background is a blurred office interior with large windows.

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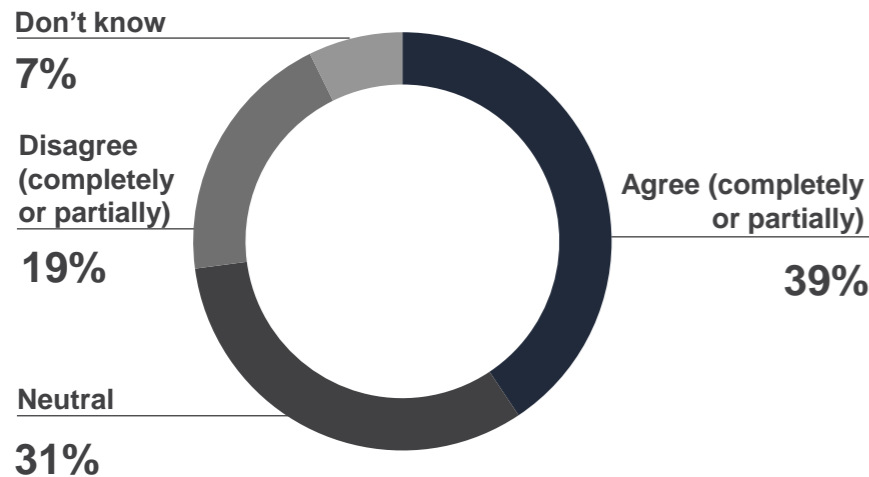
- IF WE ENCOUNTER COMPANIES THAT DON'T OPERATE IN A SUFFICIENTLY ENVIRONMENTALLY RESPONSIBLE WAY, WE CAN'T SIMPLY LET THEM GO IN ORDER TO KEEP OUR OWN PORTFOLIO NICE AND CLEAN - WE OBVIOUSLY NEED TO HELP THEM MOVE IN A MORE PROPER DIRECTION

Marianne Groth
Executive Vice President of Sustainability at Eika Group

POWERFUL FORCES ARE PUTTING SUSTAINABILITY ON THE AGENDA

Customers, employees, and investors alike care about a sustainable future. The authorities will also spur development through regulations and new requirements for the banks and the services offered.

Q: It's important for banks' products and services to take into account the climate and sustainability (consumers)



Few would disagree that it's important for the authorities and the business community to take sustainability seriously. In a bank context, however, only 39 percent of Norwegian consumers believe that it's important for banks' products and services to take the climate and sustainability into account, while a whopping 31 percent don't have an opinion one way or another.

Nonetheless, it's reasonable to assume that more and more people will see the importance of the financial services industry putting sustainability high on the agenda, both in its own interest and the interest of its customers.

We predict that financial sustainability will become the most important hygiene factor that the financial service industry will face in the coming decade. At the same time, we understand that it will be difficult to be an earlier adopter in this area because the industry will, to a large extent, move in lockstep.

63% of small and mid-sized business customers are not willing to pay extra for the bank to operate in a sustainable manner

63%

COMPANIES SEE BOTH OPPORTUNITIES AND CHALLENGES

Companies views on sustainability

25%

Sees an opportunity for growth in new business areas

23%

Increased demand for the company's products and services

19%

Increased costs related to sustainable deliverables

19%

Modified general regulatory requirements from the authorities

Many companies see opportunities in light of the trend toward sustainability, with the percentage increasing in proportion to the size of the company. What's especially interesting is that one in five companies fear negative consequences, either in the form of increased costs or a modified competitive environment.

In addition, nearly one in three say they aren't sure what sustainability will mean for them. The job of the financial service industry will be to guide its customers towards a more sustainable future.

We predict that the sustainability winners in the financial service industry will be those stakeholders who make their investments greener, reward and influence companies to make more sustainable choices, and facilitate innovation that contributes to a greener and more sustainable society. Banks must therefore take on more than their fair share of responsibility for sustainability.

Sustainability is business

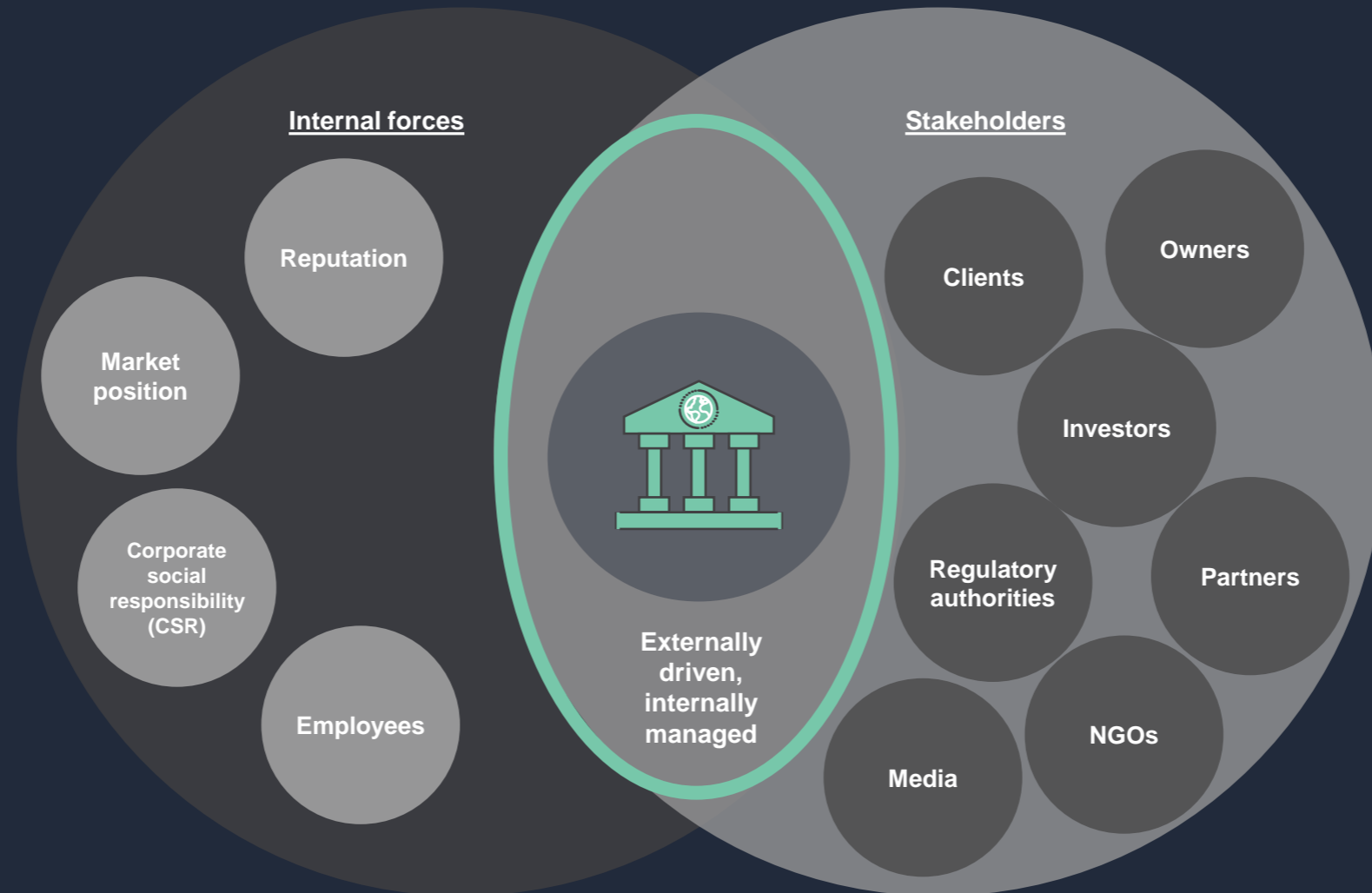
The process for sustainability is already controlled by external forces. Each and every business is more or less subject to expectations from society and stakeholders: General requirements, the competitive environment, the marketplace, and consumer patterns and influences are all changing.

There are powerful forces in play, providing huge opportunities to create new revenue streams and more profitability, among other things.

A true commitment to sustainability must come from within the organization. It's the company itself that must understand it, take ownership of it, and manage it.

This is the challenge every business faces: How to merge sustainability with the company's ambitions for growth and business development, with clear operational goals and priorities going forward.

Itera has developed practical sustainability initiatives and strategies over the course of a quarter of a century. Business opportunities can be found at the crossroads between internal forces and the expectations of the outside world. Technology is an enabler and the financial services industry must lead the way; what's good for its own businesses will also be good for society in the future.



BUSINESS OPPORTUNITIES CAN BE FOUND AT THE CROSSROADS BETWEEN INTERNAL FORCES AND THE EXPECTATIONS OF THE OUTSIDE WORLD.

Christopher Hjort
Responsible for Sustainability communications at Itera

Norwegian banks have mobilized and made formidable investments in order to follow the trend toward digitalization, but are still to some extent counting on past success stories in the face of a new reality.

There's a broad consensus in the industry that technology is about more than just reducing costs. The customer needs to be the focus, data is the new currency, and the next generation of customers will have completely different expectations of what a bank should be. However, the banks' online and mobile banking initiatives still appear to be no more than a digital representation of the traditional account statement, and only time will tell whether they'll be able to transform words into action and be the ones who redefine financial services in the future.

After a long line of investments in innovation and experimentation with new technology, a period in which the company prioritizes profitability and cost control normally ensues. A number of banks have already warned of cost-cutting measures and downsizing, and a survey carried out by SEB and Deloitte shows the industry is preparing for additional staff reductions.

It's precisely when the chips are down that tomorrow's winners excel by pulling away from the pack. Fintech, as we know it, was conceived as a direct result of the financial crisis, and once again, we're experiencing a new crisis affecting banks' returns on equity while at the same time reinforcing trends favoring nimble, fully digital challengers. In this reality, it's more important than ever for banks to stand out from the crowd and innovate in a smart, cost-effective manner in order to maintain profitability while concurrently equipping themselves for the future.

Christoffer O. Hernæs
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**– IT'S PRECISELY WHEN
THE CHIPS ARE DOWN
THAT TOMORROW'S
WINNERS EXCEL BY
PULLING AWAY FROM THE
PACK.**

Christoffer O. Hernæs
Fintech expert



Itera is among Top 10 Digital Banking Solution Providers in Europe.

At Itera, we specialize in creating digital business. We are passionate about design and technology, and we take an inter-disciplinary approach in order to fully realize the strength of our combined skills. Itera has operations in Norway, Sweden, Denmark, Iceland, Slovakia and Ukraine. The group delivers innovative solutions and services to about 20 countries, including all Nordic countries.

[Read more](#)



GET IN TOUCH!

Itera's digital business consultants, designers and developers have extensive experience in understanding and realizing the possibilities in new technology within the financial industry. Do you have challenges you want to discuss or something else you are wondering about? Get in touch and we will do our utmost to help you.

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