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Digital and Data Trends Disrupting Financial Services

Philippe Tschannen | Managing Partner
Stanton Chase Zurich

Christopher Arnold | Vice Chair, Finance & Administration
Stanton Chase Boston

www.stantonchase.com

Introduction

> "Bill Gates called retail banks 'dinosaurs' a quarter century ago, and that prophecy might to be coming true. The proliferation of new financial instruments (Bitcoin) and streamlined processes (blockchain, AI driven transactions) are quickly usurping market share from the traditional ways of storing and moving money."

The Wall Street Journal reports "falling foot traffic at banks," and Forbes writes that end users would rather deal with smartphones than tellers. The problem is easy access to money without the need to fight traffic or wait in line - and people are taking full advantage of their options. Javelin reported that 25 million people in America alone began banking from their smartphones as banks shrank the number of retail branches by 1,700 in the second half of 2017 alone. Banks with the highest number of closures, such as Bank of America, are enjoying their highest profit margins in some time. But why are most banks doubling down on tech and getting rid of retail?

First of all, users are starting to fall in love with technology readily available within the mobile space. Many banks are finding success with chatbots that provide instant customer service for users and automated investment programs that generate customized advice and guidance for model portfolios and savings vehicles.

The proliferation of cryptocurrency is another new feature of the digital banking wave. There are more apps than ever connecting Bitcoin users to commercial products. With a higher degree of privacy, less red tape and faster transaction times, many people are starting to adopt this currency.

About the authors

Philippe Tschannen is the Managing Partner of the Stanton Chase Zurich office and Global Practice Leader for Financial Services.
email: p.tschannen@stantonchase.com

Christopher Arnold is the Vice Chair, Finance & Administration and Managing Director of the Stanton Chase Boston office.
email: c.arnold@stantonchase.com

Technology is the catalyst behind nearly all major disruptive processes in the today's financial services industry. There are three primary categories driving the disruption - digital tech, data & analytics, and information security.

These 3 categories are focused on two major goals - convenience and consolidation for the end user, and a cost-effective supply chain for financial suppliers. People can get money faster than ever, and banks must also lower their cost of doing business to bring services into the market at a competitive rate.

As financial services become more automated and having an omnichannel service model, these three categories are providing the greatest advancements for businesses in terms of service and operations.

Let's take a look first at the technology types, then how those technologies create business trends in different areas of the world.

Digital Technology

Customer expectations are changing. The modern financial consumer expects high-value product offerings and complex tools to help automate personal and financial needs, all delivered in an omnichannel environment. Expectations are high that most common and complex transactions will have turnkey customer facing solutions, with very little need for human interaction.

Direct human interface will continue to be the norm for high net worth or ultra-high net worth clients, as personalization is still a highly valued characteristic in elite financial services for these relationships. However, companies must continuously look for technology solutions to be more efficient and eliminate costs and repurpose their human capital. Only with fully automated, continuously improved common processes will a financial services organization have the margins to reinvest into faster, more robust technologies and retain top talent.

With this in mind, digital technologies and channels that correspond to modern policy commoditization are definitely in season. Effective digital strategies give financial services companies the ability to better serve their customers, identify new revenue streams, lower the costs of doing business and ultimately deliver an improved customer experience which in turn generates higher customer retention rates.

Data & Analytics

New regulations require financial services companies to maintain verifiable and transparent data. Beyond governmental regulation, the proliferation of new technologies is helping to improve very specific aspects of process and administration within the industry.

For instance, intent data is now prevalent and accessible, creating cost-effective ways for companies to segment buyer and risk profiles. This new level of analytics comes from combining traditional data sources with less conventional dynamic data sources, like Internet of Things (IoT) and social media.

Companies that invest in an analytical approach can also build robust automation platforms, improving their efficiency. Building an infrastructure of automation also allows for lower cost customer facing technologies now and in the future.

Information Security (IS)

The financial services industry continues to be one of the most frequently attacked industries in the world by actors in cybercrime. Could the next financial meltdown come not from bad investments, but from cybercrime? The Harvard Business Review seems to think so. Digital crime has already caused huge problems, such as the disruption of the Visa network in the UK. As this underworld of criminal activity is beginning to employ automated solutions for its own purposes, the financial services industry must keep up with its own appropriately scaled defense strategies and policies of remediation.

Many of these new IS solutions are finding their place in the cloud and in mobile applications. Many businesses are enhancing the position of the Chief Information Security Officer (CISO) specifically to oversee the increasing use of security analytics and internal profile data for protective purposes.

With these three categories of technology accelerating disruption around the world, it is always informative to look at a more localized picture of service trends.

Financial Services Trends in the Americas

"An aging overall population, Millennials with $1 trillion in spending power, and a business landscape in need of multiple distribution channels all affect the way the financial services industry connects to its core audience."

The Relationship Between Customer and Product

Baby Boomers who are transitioning into retirement will be reliant on their relationships with financial services companies. There is a retirement savings gap that is pushing public welfare programs to their limits. The National Institute for Retirement Security found the retirement gap may be $14 trillion with 84% of American households falling short of retirement savings goals. There is an overwhelming need for new products geared towards aging demographics, as well as continued education on the importance of personal savings.

Financial services companies continue to focus on providing savings and investment vehicles, long-term care accounts, and retirement solutions in more accessible ways. Even so, governments and private institutions are concerned a crisis in retirement funding may occur in many countries. There will be a great deal of attention put on disruptive technologies that allow customers greater access to retirement vehicles and more flexibility in how to use them. For instance, the Finnish Centre for Pensions has created an AI algorithm that predicts who could retire on a pension for disability.

In order to maximize profit margins, these companies will also cut back on their recruitment of human talent. Insurance claims will become more automated, and a great deal of money is already being spent on technologies to segment population profiles and more accurately assess risk.

Distribution of the Fintech Industry

The distribution of financial technology services to consumers will become more precise, delivering specific services through direct channels at targeted buyer profiles. The industry is already experimenting with many different kinds of alternative models for this distribution. No clear winner has yet been found. Back in 1994 Bill Gates himself wanted to put Microsoft Money in the middle of this distribution, exclaiming at one meeting the "transformation of the world financial system" was a "pot of gold."

New Levels of Leadership

Many financial services companies are creating new roles to take the reins of new technologies. The Chief Innovation, Chief Digital, Chief Data and Chief Analytics Officers are now highly coveted positions within many companies. The specific direction of each of these roles all involve partnership management and connecting departments with data and operations administration.

However, there are many questions yet to be resolved within the organizational hierarchy. The central question, who owns the data, must be answered before data management and security can be properly accounted for.

Bottom Up Company Culture

The millennial generation will affect company culture more than ever, because they are the largest market for financial services as well as the largest new employment class. This generation will hold sway for longer periods of time than any generation previous, due to longer life expectancies, which could be 100 years or longer.

As digital natives, Millennials do more research online and are less trusting of advertisements than Baby Boomers. Instead, they take cues from social media. This leads to a much higher demand for top-notch service that is also personalized. This group of people have been spoiled by experiences like Amazon, and now demand one click, highly personalized customer experiences.

In terms of attracting new Millennial talent, companies will have to compete with each other using the disruptive technologies they acquire or build. Millennials are much more likely than any other generation to trade higher salaries for the experience of a company and the ability to work with new disruptive technologies. This may lead talent migrating to larger companies with the budgets and research departments to develop proprietary technologies.

Government Regulations/Policy

The world economy is far from stable, with negative interest rates still inorganically propping up weak economies. Also, many economic experts now fear deflation more than inflation, and still hold concerns about overall liquidity. The U.S. Federal Reserve has issued guidance it will change monetary policy to combat deflation rather than inflation over the next few years. Starwood Capital Group Chief Executive Officer Barry Sternlicht said the economy was “not as good as it looks.”

There is a surplus of capital at the top of the pyramid, and a low interest rate enviroment makes money cheap. Many smaller competitors in the fintech industry are weighed down by the fixed cost of keeping up with government compliance. This environment is ripe for merger and acquisition activity. Business models will change and company culture will likely follow.

Financial Services Trends in Europe, the Middle East, and Africa

> "EMEA has a youthful population, especially in Africa. This young labor force is receiving technological investment from more established countries outside of the area, led by China."

The region is attempting to shore up its new financial prowess through a more robust regulatory landscape, and the need for cybersecurity and IoT infrastructure is driving a great deal of financial investment.

The Changing Regulatory Landscape

There is a growing regulatory landscape challenging financial risks taken within this region. Larger regulatory bodies are debating whether taking and independently monitoring risk should be considered separately from internal audits. The issue has yet to be resolved, but it will affect a great deal of the way technology is implemented for years to come.

Artificial Intelligence (AI) & the Internet of Things (IoT)

This region of the world leads in the commercial adaptation of the IOT. Technologies include home security systems, wearables and other commercial applications that allow financial services companies to monitor the behavior of target clients as well as create streams of revenue.

Financial firms in the region are investing in commercial products with implications for data and information gathering. As a result of these data gathering efforts, the fintech industry in this part of the world has more organized data on its population than any other region on the globe.

Organized big data impacts AI as well. Faster machine learning techniques are being created from the large amounts of data; less regulation allows companies to accelerate the rate of innovation when businesses find an opportunity for disruption. Most AI efforts target higher efficiency and customer facing automation in the insurance claims and underwriting processes of financial services.

The New Need for Cyber Insurance

There is a significant need for an accelerated cybersecurity industry in EMEA. Many companies are demanding cyber insurance. Jean-Noel Georges, global program director and research manager, Frost & Sullivan, stated AI will become a huge factor in cybersafety in the near future: "AI is not happening in the short term, but machine learning is already ongoing. It's mostly algorithms, but it means processing is happening in real-time. Thanks to cloud computing and investment, plus the improvements to the algorithms used, you can now embed a new system in your fraud management and data analytics, which uses machine learning to improve the way you are collecting data, extracting information and solutions. As soon as you can do fraud detection in real time, you're saving money."

A Customer Centered Economy

Taking cues from their North American counterparts, there is a huge shift from an economy centered around products to the focus being the customer. With more choice than ever, customers are making decisions about products based on the experience of a business and its convenience. Although price is still a factor in many decisions, the experience a customer has with a brand and its familiarity accounts for a much larger component of new account conversions.

Advancements in technology are giving companies better opportunities to accelerate and personalize the customer experience. Disruptive technologies allow companies to automate certain processes, creating scaled outreach efforts, yet maintaining a personal touch. It is essential for companies and this region of the world to stay ahead of the technological curve. They must keep focused on continuous improvement with a goal of improving and enhancing the customer experience.

The Impact of New Innovation

Financial leaders are opening the doors of funding to the fintech and insurtech industries. While money is vast and cheap, return expectations will be high. New players in the industry will be tasked with accelerating results.

However, the money flowing into this sector actually give smaller, more agile companies an advantage. Startups without a huge infrastructure or established hierarchy will be able to respond more quickly in this low interest rate environment, which is stagnating many businesses with larger overhead and a culture that lends itself to inefficiency.

Sub-Saharan Africa is also the runaway leader in mobile financial services, with half of the world's 282 services originating from here (according to the GSMA). One in every ten adults in Africa has a mobile money account.

Jen Brown, Director of Marketing, EMEA, at Tealium, seemed to echo the sentiments of Bill Gates about traditional bank branches, although she was a bit more conservative about their demise:

> "[Mobile financial] is all very closely tied to money – actual money. If we ever manage to get rid of coins and notes, it might change, but as long as we've still got them, we'll have branches. Get rid of them, and it becomes a very different proposition."

Financial Services Trends in the Asia Pacific

With a bevy of maturing economies and a growing middle-class, investors are more likely to take risks that lead to accelerated innovations in the Asia Pacific. Two-thirds of the middle class will be in the Asia Pacific by 2030 according to EY. The Eden Strategy Institute found that residents in every country in the region would rather put money into a new business than into education.

The result in the area has so far been a huge uptick in the proliferation of consumer financial products, especially single task apps. The younger population in the region is acclimated to the digital landscape, so they are less concerned with data privacy. Consequently, there is no bottleneck for disruptive technologies that bring a commercial advantage.

The Asia Pacific Digital and Insurtech Industries

Innovative insurtech and fintech projects will have a quicker road to profitability because of their disruptive technologies in this region of the world. As stated before, consumers are less worried about data privacy than consumers in the West. There is also a much looser regulatory environment and a much wider application for funds coming from investors in this space when compared to Western countries.

Insurers are leading the pack in implementing digital first strategies. In order to reduce costs and improve profit margins, these companies are moving very quickly from traditional service models into digital omnichannel models. Singapore currently serves as a preferred location for digital infrastructures. Many insurers have found luck partnering with Chinese digital companies including Baidu, Alibaba and Tencent.

A Pressure to Perform in a Customer Centered Environment

Countries like Japan face rather challenging demographics for the life insurance sector. These markets are mature, meaning consumers in these countries expect a high level of service. This is especially true in wealth management. Customers here are looking for more than protection – they are looking for the most efficient way to maintain, preserve and grow wealth over generations.

Companies in this space face a great deal of competition. They have to compete on more than price. The customer value proposition is becoming central to this industry, as the growing middle-class find themselves less interested in saving a little bit just to give away a lot down the road.

Multinational Expansion

CROSS guidelines have forced insurers in China to expand outside of the country. The movement has been easiest for multinational insurers. This small group of companies has begun to open local offices through licensed branches, the Lloyd's platform or JVs.

At the same time, CROSS guidelines are creating opportunities to provide financial reinsurance to Chinese SME insurers that are not listed or as well-capitalized as their multinational counterparts.

Japan is following China's lead in this space. Many companies from Japan are looking to grow revenue across international borders through acquisition and gain global market share. Although the approach has yet to provide long-term stable resources, things are looking up for overseas subsidiaries.

Right Sizing and Consolidation

Portfolio rationalization, which is associated with declining P&C rates, has forced many smaller companies to divest themselves from various territories. Only companies that have reduced their redundancies are able to upgrade their talent in country and around certain parts of the region.

Many of the disruptive technologies that are finding their way throughout the region have addressed distribution strategies, operating models, product focus and geographic positioning of SME companies in the region. It remains to be seen if these technologies will be able to scale enough to allow smaller brands to continue in the industry without merging into larger infrastructures.

Leadership Over Technology

The one pool of “labor” that will continue to proliferate is the digital leader. The industry is finding its traditional hierarchy is leading to a rather limited pool of talent in terms of strong digital leaders. As such, many firms are looking outside of the financial services sector for leaders over technology. Chinese financial institutions are increasingly using strategic partnerships to expand their reach. Industrial and Commercial Bank of China and the China Construction Bank are among the large scale financial institutions that are partnering their way into mobile financing and ecommerce.

> “China will speed up the opening of its financial sector,”

said Chen Wenhui, the vice-chairman of the China Banking and Insurance Regulatory Commission (CBIRC).

The leaders they are looking for will continue to drive a disruptive digital agenda that incorporates new technologies into social engagement, administration, sales and marketing, data and analytics, and distribution. Senior talent will also need to have the ability to manage foreign acquisitions.

Conclusion

Overall, new advancements in digital technology, data and analytics, and information security will continue to disrupt the financial sector as a whole and banking in particular. Financial institutions are basically forced to incorporate low overhead methodologies for the storage and movement of money. The data collected from end users is much easier to consolidate from these platforms. Transactions made with this new age of technology is also more secure for both the banking institution and the end user. With very little downside to the disruptions, we can assume that the current trends towards digital and data trends will continue in finance.

Governments and large financial institutions continue to research new ways to create more secure and accelerated transactions around the world. With competition increasing within and between geographic subsections of the globe, no one can really afford to slow down now.

Technology is bringing huge disruptions to financial sectors across the world. The trend is towards consolidation and convenience for the end user, and a more cost-effective supply chain for companies. Only those that adapt quickly will survive. Companies are well advised to monitor the kinds of technology being implemented at a macro level and invest in those technologies as best practices.

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