FINANCIAL SERVICES INDUSTRY

DIGITAL OVERDRIVE:

WHAT TO EXPECT IN 2023

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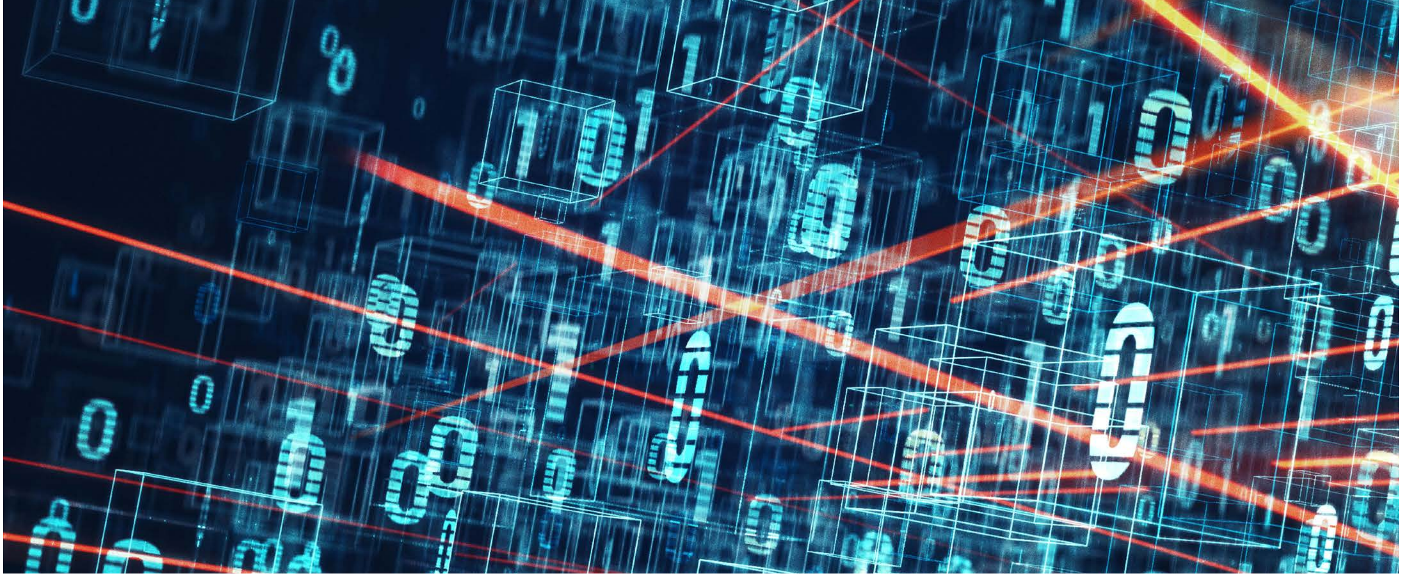


Introduction

In 2022, the financial services industry saw a continued focus on digital transformation, as the world marked the beginning of post-pandemic life and began facing tough macroeconomic challenges.

Digital investment has rumbled on and is expected to reach some US$3.4 trillion by 2026[1]. With many businesses having made great strides in digital transformation, they are tasked not just with surviving, but building on the good foundations they have laid in recent years.

The financial services industry is highly competitive and is subject to increasingly stringent industry regulations. This environment means financial institutions must constantly monitor for opportunities to differentiate their capabilities using technology. Consequently, many look to transform their digital capabilities using the most recent technologies to get ahead.

Achieving digital transformation is no easy feat; there is no simple and unique definition and few understand the complexity and the changes required to drive this to success. It is in fact a complex cultural change that needs to be driven by talented people who want to collaborate to better serve customers.

> The first wave of digital transformation was focused on opportunities such as automation and customer experience, the current wave involves the "Internet of Things", machine learning and AI.

Many businesses recognised the value of artificial intelligence (AI) as they emerged from the challenges of the pandemic and invested in their digital transformation while dealing with talent and skills shortages. Since digital transformation is a journey, it calls for a strategic plan of incremental changes that can help organisations achieve their business goals.

The first wave of digital transformation was focused on opportunities such as automation and customer experience, the current wave involves the "Internet of Things", machine learning and Artificial Intelligence (AI). While financial services regulation is often reactive, it can also assume the role of facilitator, enabling innovation and fomenting competition in markets.

[1] DC Spending Guide Sees Worldwide Digital Transformation Investments Reaching $3.4 Trillion in 2026

With this in mind, here are our 10 digital predictions for financial services 2023:

01 AI will become more revolutionary

Artificial intelligence will play an increasingly important role in what makes a successful financial services enterprise. We expect financial institutions to increase their governance oversight, implementing policies to ensure AI is used appropriately, to see that sufficient human oversight is in place and make sure those using AI are properly trained and can adequately monitor for problems.

As there is no universal standard on what exactly AI governance should look like, we may see legislators set out their visions for AI regulation, and AI will be increasingly important in shaping outcomes in line with regulatory intent. In the UK, for example, the FCA's new Consumer Duty calls on firms to design products and services to meet the needs of customers within their target market. AI's ability to analyse data in real time will be a significant ally in achieving this outcome, by helping shape the design of products and prompting best recommendations.

02 The shift to green finance will continue

As the emphasis on Environmental, Social and Governance (ESG) increases, both customers and staff have increasingly prioritised climate change in their decisions. The vigilance over potential "greenwashing" has meant increased sensitivity for banks, calling for both better data and traceability. Businesses need to monitor their supply chains and investments better than ever to enable them to evidence to customers they are keeping to commitments, but also to keep records for regulatory obligations.

Notably, UK bank NatWest announced in 2022 that it would stop doing business with several coal companies and cease lending to some oil and gas firms because of their lack of "credible" green plans. Carbon credits – essentially permits that allow the owner to emit a certain amount of carbon dioxide or other greenhouse gases – have also gained traction, with banks including UBS and BNP Paribas helping launch a platform to settle transactions of voluntary carbon credits.

From an implementation perspective, tools are being developed to aid this goal. The EU's taxonomy, for example, provides definitions on what is 'green' and aims to create market standards for green investment funds and green bonds. Despite this, a common set of minimum standards is crucial to efficiently allocate financial resources to green projects and assets and market and risk analysis. Banks need to ensure their data is sufficently robust to ensure they are able to provide the necessary transparency.

03 Hybrid working will accelerate digital transformation and vice versa

We expect to see the trend towards hybrid or fully-remote working to continue.

The benefit will be felt by employees through self-service developments, such as being able to access relevant HR information from any device. It will also make a change in how we recognise one another with reward and recognition being able to take place through apps. Collaboration tools such as real-time co-authoring and instant translations can provide wide benefits for a business, and meeting rooms without a screen and camera will be considered not fit for purpose.

According to Microsoft's recent Work Trends Index, 53% of employees are more likely to prioritise health and wellbeing over work, while 47% are more likely to put family and personal lives first[2]. Companies need to leverage digital changes, as employees are keen to find workplaces that matching their way of life with how and where they want to work. This will open up real opportunities for businesses to become customer-centric organisations where the customer is both external and internal.

04 Tooling will decentralise and federate digital transformation

IT leaders are struggling to deliver change in the face of developer shortages and skill-set challenges. We predict that providers will further utilise the cloud to create hub models that provide skills at lower costs. Enterprises will further adopt low-code or no-code as one of their strategic application approaches.

With these alternatives, tech and digital divisions provide tools and expertise to create platforms, changing the nature of digital. Such is the importance of this that in the last year, Bank of America, BNY Mellon and Citi jointly invested US$20 million in Genesis Global, a company with a low-code platform that financial markets organisations use to develop these applications.

05 Financial super app?

The rise of superapps has been sharp, owing to younger generations that are mobile native and demand cleaner, more seamless experiences. While this is the norm in China, with WeChat and Alipay both having more than 1 billion users, the West still lacks a main player.

In this arena currently, Revolut is making significant inroads, Tinkoff in Russia is also progressing, while STC Pay in Saudi Arabia is now moving to create digital bank and carry over its customers, which may in effect create the biggest deposit institution in the country through an entirely different route. Twitter could well look to incorporate payments features under Elon Musk. One thing is clear: whichever company positions itself as the West's first, they would likely get huge first mover advantage.

[2] Work Trend Index: Microsoft's latest research on the ways we work.

06 Cloud adoption to accelerate amidst increasing regulatory scrutiny

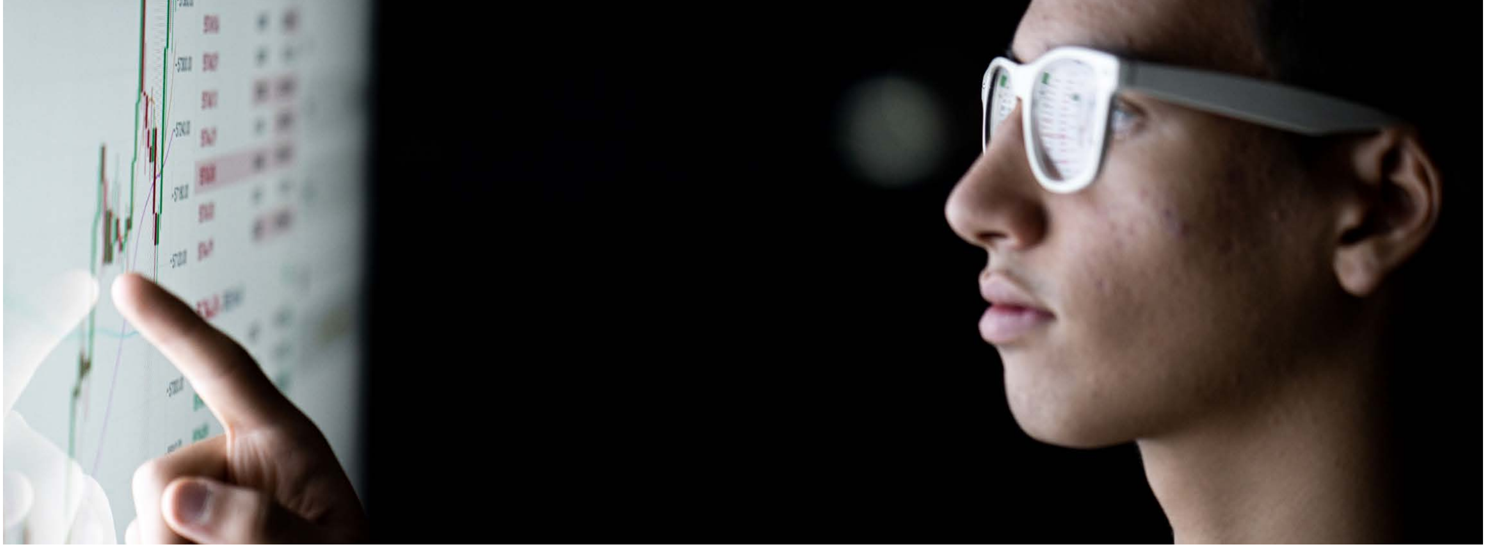
Financial services organisations will continue their shift to the cloud for scalability, better data management and reduction of costs. In turn, regulators will place more scrutiny on concentration risk amid the challenges presented by a failure – a key example being Amazon's AWS outage in 2021, with some companies going down and having no failover.

Regulators do not want providers putting all their eggs in one basket, and the reliance on one outlet is seen as enough to put cloud providers within the perimeter of regulators' purview. We think this creates a good opportunity for cloud providers to partner with each other for failover. This would produce a rigid and solid system but cloud providers would need to consider how to mitigate against anti-competitive behaviours.

07 Open finance data to finally come of age

Financial companies are leveraging open data and partnerships to gather more and diverse information from clients. Companies can now gather more information to offer personalised products (e.g. tailored underwriting that includes open banking data as well as traditional credit data). The increased workload in forbearance and collections will see the use of open data become ever more crucial and practical.

Fintechs are playing a role here – several joined forces to develop and promote an open finance ecosystem in both the UK and EU underpinned by Application Programming Interfaces (APIs). The fintechs launched the Open Finance Association (OFA) in September 2022 to bring about an era of open finance in the same way the EU's Payment Services Directive (PSD2) did for open banking in 2016. Effective collaboration across the entire ecosystem will be a key determinant of success.



08 Seamless customer experience journey

Customer expectations are higher than ever – today's savvy consumers are no longer tethered to one device or limited to a single channel. They frequently switch between voice, email, chat, and social, and expect financial services providers to effortlessly meet their needs across channels and touchpoints.

This is more than transacting – it is interacting, and it relies on big data and understanding clients wants and needs. Some mortgage providers, such as Halifax, have become particularly apt in this area; they now bring different channels – self-service, voice, webchat, and social media – together on a single platform. This is key for the future, and will have to become much more prominent across the whole of the financial services sector if providers want to keep pace with customer habits.

09 The race for skilled personnel will hot up

Many product and customer experience (CX) teams already lack crucial skills including design thinking, business analytics, technology developers. This will only intensify, and contribute to the war for talent currently taking place – those with skillsets in product management, engineering and data are all key and in short supply.

On top of this, financial services is just one industry for skilled individuals to select. CX is key, as businesses continue to evolve their digital offers, they need people that understand CX. Mass lay-offs at tech companies may help those in search of talent.

There is also a duality at play; new jobs are emerging and there is a marked lack of true product owners. Shifts such as Brexit and the rapid adoption of hybrid working means that the pool is larger but there is a challenge on co-location.

10 Businesses to align innovation with macro environment

Providers might be tempted to abandon innovation in the face of the downturn, but the astute will focus on things like automation and efficiency to drive the operational efficiency and cost control that will undoubtedly become a focus. Process mining is a good example. The use of this technology to unearth hidden opportunities could be useful for many providers.

Providers need to find a way to tie innovation to what they need to address in 2023, namely how to manage customers in a downturn and harsher economic climates.

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Rav Hayer and **Wayne Brown** are members of A&M's Digital practice and Financial Industry Advisory Services practice. They help clients transform through digital, data and analytics.

A&M support clients from digital strategy development and identifying new business models through to driving data-led transformation and delivering digitally-enabled operational excellence.

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