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Leveraging the technology ecosystem

Delivering intelligent and sustainable financial services

Kylie Bryant

The coronavirus (COVID-19) pandemic is reshaping the global business landscape, giving rise to new consumer attitudes and behaviours that are expected to have a lasting impact. In particular, there has been rapidly accelerating consumer reliance on digital interactions and experiences, with McKinsey & Company reporting in its 'Reimagining marketing in the next normal' article of July 2020 that consumer adoption of digital has advanced by five years in just eight weeks.

Forced to move online, more people have become accustomed to digital engagement and service delivery, finding it is often more efficient, less expensive and more convenient. While many regulators have granted businesses a short-term reprieve on compliance requirements in response to the pandemic, it is anticipated that heightened consumer reliance on digital interactions will bring a new wave of regulation around fraud, data security and cyber-resilience.

Simultaneously, the economic impact of the pandemic is leading to high levels of uncertainty, with the loss of business and consumer confidence posing significant challenges for companies across all sectors. The pursuit of sustainable competitive advantage in the financial services industry is likely to drive a further convergence of existing providers and the emergence of disruptive new players.

In the financial services industry globally, savvy providers are responding to these tectonic shifts by adapting proactively and focusing their efforts on the wide-ranging opportunities they present. Progressive wealth management businesses had already initiated digital transformation journeys to create more flexible technology environments, to bring their offerings in line with growing customer expectations for more personalised digital experiences and reduce their cost-to-serve.

The most successful of these efforts have been guided by ongoing strategic partnerships with innovative and experienced financial services technology (fintech) companies.

However, it is clear that its greatest impact on the financial services sector is the fast-tracking of the global megatrends that were already well underway. At the heart of these trends lies a new way of working that leverages strategic fintech partnerships and dynamic technology ecosystems to achieve financial services that are truly intelligent and sustainable.

The emphasis is on:

- building new and expanded competencies that support data-driven and customer-led digital-first offerings
- agile and cost-effective operations (Accenture, 'COVID-19: 5 priorities to help reopen and reinvent your business', May 2020)

- best-of-breed technologies and competitive regulation.

This new approach is enabling providers to respond effectively to rapidly evolving change—both environmental and customer-led. By significantly improving customer experience and outcomes, providers can genuinely empower their customers' financial wellbeing.

This whitepaper explores the five key global megatrends being supercharged by the pandemic and examines the key strategies that financial services companies can use to remain relevant, fend-off disruption and thrive.

1 Customer empowerment

Delivering hyper-personalised, digital-first customer experiences that support choice, control and financial wellbeing

In recent years, most financial services organisations have focused on delivering customers more personalised and accessible digital offerings, when and where they want. Not surprisingly, research cited in Salesforce's second annual *State of sales* report found that a majority of consumers today (61%), felt significantly more empowered than they did five years ago.

The pandemic is accelerating this trend by increasing customer familiarity with, reliance on and demand for digital channels. IBM's *Beyond the great lockdown: emerging stronger to a different normal* report of August 2020 showed that 84% of executives expect more customers to interact online more often in the future. Within the financial services sector, customers are seeking greater knowledge, choice and control over their financial circumstances in the face of economic uncertainty.

Many customers are looking for real-time, personalised support and guidance around deferring retirement, changing drawdown strategies and reviewing insurance coverage, as well as effectively managing their finances and investments, both now and into the future. They expect their financial providers to understand their changing needs, goals and expectations, build relationships with them and utilise their individual data to deliver seamless, holistic customer journeys that are intelligent and sustainable.

Successful financial services providers will offer simple, relevant and real-time digital interactions and experiences that heighten customer choice and control over their finances.

Savvy providers will increasingly leverage artificial intelligence (AI)—virtual agents and digital-advice solutions supported by data-driven adviser insights—as well as financial dashboards, self-service capabilities and goals-based products that offer flexibility when circumstances change.

More than ever, customers will expect their providers to make it easy for them to interact through smart, intuitive and seamless omni-channel experiences that can evolve to meet their needs during various life stages.

2 Powerful partnerships

Establishing and growing strategic partnerships with financial technology providers to maximise differentiation and secure competitive advantage

As competition within the global business landscape reaches new heights, forward-thinking financial services organisations are increasingly forming strategic partnerships with technology companies to innovate and maximise opportunities for differentiation. This trend has seen a growing number of traditional providers join forces with fintechs to build dynamic technology ecosystems that can leverage best-of-breed technology, business models and industry expertise to deliver new and innovative offerings and solutions.

The financial services sector can expect to see a significant increase in these formidable strategic alliances, particularly as pressure mounts from digital disruption and margin squeeze. PwC's *Redrawing the lines: fintech's growing influence on financial services* report of 2017 found that that 82% of global banks, investment managers and insurers plan to increase their partnerships with fintech companies in the next three to five years. The report also found that the primary impetus for the partnerships was concern that standalone fintechs represent a genuine threat to traditional provider revenue streams.

Looking ahead, fintech partnerships will provide a significant opportunity for financial services providers, enabling them to leverage global technology trends and pioneer their own digital-first experiences and solutions.

Fintech partners bring to the table speed, enterprise agility and operational resilience, as well as considerable industry expertise and proficiency around customer experience—key competencies needed to keep up with rapidly changing customer expectations for hyper-personalised digital-first offerings that empower financial wellbeing.

By coupling with an innovative and experienced fintech partner, forward-thinking wealth providers can transition to dynamic enterprise ecosystems that support intelligent solutions and deliver a sustainable competitive advantage over fintech disrupters and traditional players.

3 Consumable microservices

Employing flexible, needs-based technology components to improve business agility, scalability and performance

The recent emergence of dynamic technology ecosystems has been accompanied by a new flexible approach to software development known as 'consumable microservices'. Microservices are small, self-contained and independently deployed technology components that provide the flexibility to deliver specific business capabilities anywhere across the business value chain to add value.

Fully scalable, microservices can exist as satellite applications around the existing core system, be built up over time to gradually replace the core system, or be adopted as the core system from the outset.

The quote

Successful financial services providers will offer simple, relevant and real-time digital interactions and experiences that heighten customer choice and control over their finances.

Many providers test the water with satellite applications.

For example, a bank might employ one microservice to handle automated loan applications and another to handle loan contract management.

US-based software company DreamFactory in its 'Microservices Examples: Amazon, Netflix, Uber, and Etsy' post explained that Tech giants such as Amazon, Netflix and PayPal have led the way with this trend, transitioning their core systems to microservices infrastructure to substantially enhance customer experience and boost profitability.

This global megatrend is expected to gain pace as financial services providers seek capabilities that solve business and customer pain points in much smarter and more cost-efficient ways.

The adoption of microservices leads to greater innovation, better tools and functionality for end-users, and increased speed-to-market. Microservices make extensive use of automation across testing, deployment and monitoring, leading to higher quality, more scalable architecture, with minimal support costs.

To make a change, providers can simply replace, update, test and introduce a new microservice without impacting the rest of their enterprise ecosystem. This approach eliminates the need for software release cycles, whereby one simple change might have knock-on effects across an entire core platform.

Microservices are becoming an indispensable tool for financial service providers seeking to meet heightened demand for digital-first experiences and lower costs.

Task-specific microservices can be employed by wealth managers and financial advisers to make their financial services significantly more intelligent and sustainable.

For example, they can be used to track, analyse and report on investment portfolio or pension/superannuation fund performance with ease, carry out large volumes of accurate calculations at high speed, and support specific, often complex, aspects of regulatory compliance and reporting.

In the immediate future, the availability and diversity of consumable microservices within financial services will continue to grow, giving providers the ability to 'pick and mix' from best-of-breed technology solutions to achieve smarter, more cost-efficient offerings, greater business agility and resilience, scaling advantages and increased profits.

4 Cognitive technology

Harnessing AI to elevate customer experience and capitalise on intelligent automation

In the years ahead, the use of cognitive technology across businesses will become widespread. Already, forward-thinking financial services organisations have been using AI (most commonly, machine learning) to drive customer engagement, improve offerings and reduce costs. IBM's *Beyond the great lockdown: emerging stronger to a different normal* report found that 97% of financial services executives say their organisation will deploy more AI tools in the next two years.

Cognitive technology will play a pivotal role in customer-facing operations. Dynamic AI-backed engagement tools such as chatbots, virtual assistants, robo-advice solutions and chatbot call centres will replace scripted, static offerings. Powered by machine learning and voice recognition technology, these tools enable intelligent, intuitive and responsive interactions that effectively meet customer needs at lower cost.

According to Accenture's *Banking technology vision: technology for people* report of 2017, more than 70% of global banking executives believed that AI can become the face of their organisation. Amid unprecedented economic uncertainty, savvy providers will seize the opportunity to provide integrated financial advice and education through seamless, end-to-end advice capabilities. New cloud-based financial planning software is allowing providers to offer customers high-quality self-directed digital and face-to-face advice that is experience-led and data-driven.

In the middle office, machine learning will enable forward-thinking financial services companies to unlock key insights from customer and business data. It will require customer-centric business models capable of capturing and maintaining large high-quality datasets from omni-channel interactions, including social media.

Further, Bravura Solutions' *Artificial intelligence and machine learning in financial services: where might we go next?* report of July 2019 found that although larger firms have an advantage, smaller firms can access the data they need from third parties.

Providers with sufficient data and flexible technology ecosystems will be able to leverage consumable microservices that specialise in machine learning and data analytics. These microservices deliver AI expertise on demand, enabling providers to conduct more intelligent and detailed customer profiling that anticipates needs, and drives individually tailored experiences and journeys, at mass scale. Retention risks can also be identified, enabling proactive measures to be taken to stem defections.

There is also opportunity for greater automation within financial services administration. As cost pressures continue to mount, successful providers will employ intelligent automation within their back-office operations to significantly lower cost structures and maintain profitability, ensuring sustainability.

Driven by AI, smart technology provides the means to streamline and largely automate administration processing. This can deliver exceptional operational efficiencies, substantially reduce cost-to-serve and enable resources to be redirected to activities that improve customer experiences and outcomes.

5 Competitive regulation

Leveraging the regulatory agenda to drive better customer outcomes

In recent years, regulatory scrutiny and pressure across the global financial services sector have focused on fees, product suitability and customer engagement, as well as culture and conduct. In response, astute businesses have been making genuine changes to their business ecosystems to embed customer wellbeing at their very core.

KPMG, in its 'COVID-19 insights—emerging risks: financial services sector is having to adapt rapidly' post, explained that in response to COVID, financial regulators across most jurisdictions have taken steps to alleviate compliance pressures on the sector in the short term, including extending some implementation dates, postponing selected activities and delaying non-essential reviews, where possible.

However, providers should guard against a false sense of security. It is inevitable that the brakes on compliance will be lifted and new regulatory measures will be needed. The pandemic is accelerating digital disruption and rapid changes in financial markets and consumer behaviours like never before.

Far greater consumer reliance on digital interactions, such as e-commerce, virtual engagement and robo-advice solutions across multiple channels 24/7, will provide the catalyst for a further review of regulatory settings and additional compliance obligations that focus on fraud, data security and cyber-resilience.

In the years ahead, the global megatrend towards competitive regulation will be supercharged, as savvy financial services providers seek to prepare their operations for change. It is expected that more providers will partner with fintechs to adopt highly configurable and customer-centric enterprise ecosystems capable of supporting competitive compliance solutions.

These intelligent solutions enable wealth management companies to modify, update and introduce new regulatory measures quickly with limited costs. They support automated, auditable 'manage-by-exception' workflows that ensure compliance issues are quickly identified and resolved. They also enable the use of big data and analytics to enhance compliance management and improve customer experience. This approach involves collecting customer data beyond what is required by regulation and applying it to support customer wellbeing.

With the help of an experienced fintech partner, the cost burden associated with regulatory change is shared across their entire client base, significantly reducing compliance expenditure for each provider. In this way, compliance is being turned from a regulatory burden into a compelling and sustainable competitive advantage.

The way forward

In the years ahead, the financial services providers that survive and thrive will be those who place their customers at the very heart of everything they do. They will join forces with innovative fintech partners to build dynamic enterprise ecosystems that will enable them to better respond to the rapid pace of change, and turn this into a considerable advantage.

These strategic partnerships will provide financial services providers with access to innovation, agility and resilience by capitalising on the benefits of advanced technologies such as cloud-computing, microservices, AI and automation. In addition to their technical knowledge, fintechs will also bring a deep understanding of the market and extensive industry expertise.

This approach will provide the means to meet heightened demand for hyper-personalised, digital-first, real-time experiences, as well as achieving exceptional operational efficiencies and cost savings. It will also underpin the ability of providers to capitalise on new opportunities and solve business and customer challenges in much smarter and more viable ways.

Progressive providers that build fintech partnerships proactively to leverage dynamic technology ecosystems will be rewarded with an enduring competitive advantage—the ability to deliver truly intelligent and sustainable financial services. **FS**