

The Future of Financial Services

Planning for every eventuality

VUEALTA

Anaplan
Partner

Foreword from Ian Stone, CEO, Vuealta:

The decade since the global financial crisis has been one of huge disruption for the financial services industry; it's a very different ecosystem today.

A host of new local and international regulatory frameworks have focussed on greater transparency and data protection. At the same time, new financial technologies (FinTech) continue to be a transformative and creative force. Emerging technologies from artificial intelligence (AI) and machine learning (ML), to blockchain, big data and digital payments are disrupting traditional processes - not to mention the heightened threat from cybercrime. It all adds up to a challenging market - but one full of opportunity. Reduced barriers to entry have also given rise to a host of new upstarts, with the likes of Atom and Metro to name just two in the banking sector alone, but also to the tech-behemoths of Amazon and Apple. Everyone fighting for market-share.

Now, more than a decade on from the events of 2008, the industry is far from settled. In fact, the next five years look set to be just as dynamic for financial services as the

previous ten - filled with challenges and disruption but equally, opportunities for those that navigate the period well. What businesses need is the ability to understand the environment that surrounds them, a clear view of what is approaching on the horizon and the insight of how to connect the dots and plot a route to success. That's what this study is all about.

Research: To support this, we have conducted independent research through Censuswide, to talk to business decision makers in financial services organisations across the US and UK. Respondents were asked a series of questions on the challenges and potential disruptors they will face over the next five years, as well as the plans that they have in place to manage them.

Ian Stone, CEO, Vuealta



Section 1: Challenges on the horizon



42%

Cybersecurity



39%

Political changes



36%

Regulation and compliance



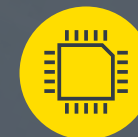
31%

Data management and privacy



20%

Planning and uncertainty in the market



16%

Disruption from technology

Cybersecurity, Brexit and regulation – three words you would not see at the top of a list of financial services' concerns before 2007. Yet, these are now the three biggest challenges that these businesses face over the next five years. These hurdles were followed by data management and privacy, planning and uncertainty in the market, and disruption from technology. When you factor in all six of these challenges, you find yourself in a perfect storm of threats to mitigate, external factors to react to and new developments to accommodate. It's a daunting task for businesses, so where to start?

The ranking of these hurdles for the next five years for financial services resonated equally across the US and UK – with one notable exception: politics. Respondents in the UK (54%) were far more anxious about the challenges posed by political changes than their US (24%) counterparts.

Much of this boils down to a simple principle – Brexit breeds uncertainty.

And that impacts everyone from smaller players to market leaders – banks, investment banks, brokerages, wealth and asset managers, insurers, insurance brokers, payment providers and more. All are faced with questions over fluctuating market conditions, access to skills and talent and the untangling of highly complex local verses continental and global regulations. The impact potentially touches every aspect of the business, from front office to back, HR, sales, markets, finance and compliance. While many look to double down on London, over a third of the UK's largest financial services firms have announced that they will be migrating staff and/or operations to other EU cities and markets – particularly the likes of Dublin, Luxembourg, Frankfurt and Paris.

The true business ramifications of the divorce from the continent remain unclear. It's no wonder that business decision makers in the UK see politics as one of the major challenges for the next five years as the uncertainty continues to cloud their plans. US firms don't seem concerned, but those that have operations in the UK should be. It will be interesting to see if the ripple effects spread across the Atlantic.

Regulation and compliance

Regulation and compliance have been a huge challenge for the industry since the financial crisis. The focus has been on better safeguarding consumers and investors around data privacy, ensuring financial stability across the industry and the responsible development of technology. From GDPR, to PSD2, MiFID II, IFRS9/15/16/17 – the list both globally and locally is extensive. There are serious implications for all financial services organisations, particularly in the time and cost of compliance. The schedules are complex and the risk of financial penalties are enormous. But a decade on we are still seeing businesses around the world struggling to meet regulatory requirements. In fact, our research revealed that regulation and compliance (45%) is seen as the biggest potential disruptor to financial services businesses over the next five years.

Despite the wide range of measures, technology and data are the common solution to tackle much of the complexity and challenges posed by regulation and compliance. The key is planning – planning effectively, at speed, and with instant access to the precise information you need for your compliance. But all too often, businesses are hamstrung by siloed and outdated legacy solutions.

Upstarts stealing a march

However, it is not just regulatory and political uncertainty that financial services organisations face over the next five years. Lower barriers to entry have given rise to a host of new upstarts across the financial services industry – from fintech companies providing loans or payments, to completely new high street banks – challenging the long-held stronghold of industry stalwarts. With these dynamics in the market, it is surprising to see such low figures for concern over the potential challenges of competition from start-ups (11%) and competition from established businesses (11%) over the next five years.

Organisations need to make sure that, despite the flurry of external influences and challenges – like data privacy, regulation and politics – they do not get complacent and take their eyes off the competition. Disruption can come from any angle and the speed at which new start-ups can grab market share can be frightening. Businesses need to ensure that they are planning for every scenario and have every angle covered. Only then can you jump on new opportunities and steal a march on rivals big and small.



Section 2: Anticipating technology disruption



45%

Regulation and compliance



43%

Cybersecurity



31%

Artificial intelligence and machine learning



27%

Payments technology



25%

Cryptocurrencies



18%

Blockchain



14%

Big data

Amid the chaos, perhaps the most dynamic section of the industry in recent years has been the FinTech explosion. It saw global investment of \$57.9bn in the first half of 2018, more than it did in the entirety of the year before – and this looks set to continue. This growth and strength validate the potential threat for the financial services establishment that it disrupts.

Yet despite this imminent danger, our research revealed that a staggering 52% of business decision makers in the US and UK financial services organisations said that they think their leadership team “do not appreciate the potential impact of technology disruption”. This is a damning

indictment of the world’s two biggest financial centres, as technology continues to transform and shape its future. Our research further explored the specific technologies and issues that these business decision makers predict will be most disruptive to their organisations over the next five years:

Artificial intelligence (AI) and machine learning (ML)

Automation has been around in the financial services sector for some time, often streamlining back office processes. But rapid advances moving into AI and ML look set to accelerate this transformation and nearly a third (30%) of respondents see it as a major disruptor for the next five years. It presents huge opportunities, freeing up human workers from mundane tasks for higher-value work, while simultaneously reducing costs.

Payments technology

This is one of the most promising areas of FinTech and new entrants to the market have benefited from government and regulators' efforts to open up the industry. The success of new tech-driven solutions for payments – digital payments, cardless payments, mobile deposits etc. – centre around convenience. Established financial services businesses will have to embrace this wave of fintech innovation over the next few years if they are to cater to the demands of the modern consumer.

Cryptocurrencies & blockchain

Cryptocurrencies (25%) and blockchain (18%) find themselves lower down the pecking order of potential disruptors. But early adopters in the market are already exploring the practical applications of these new technologies, such as HSBC, who completed the world's first commercially viable blockchain trade-finance transaction. As blockchain and cryptocurrencies continue to evolve at breakneck pace, all types of financial services organisations need to keep their eyes on developments, so they can be ready to respond if necessary.

Big data

Only 14% of respondents see big data as a potential disruptor now, perhaps because it is more accepted as a fact of modern business. But the question that businesses need to ask themselves is, "are we really getting the most out of our data?" With one in five respondents (20%) not having a plan in place for big data – we can assume that the answer for many financial services organisations is "no". While many may not see big data as a disruptor, leaders in these businesses must still ensure that they are taking

advantage of the latest technologies to realise the power of their data. It can certainly be used to help tackle some of the more high-profile disruptors like regulation and compliance.

Cybersecurity

All this new technology and opportunity has brought with it new dangers in the form of cybercrime. Our research found it to be the biggest challenge and the second most disruptive force on financial services organisations over the next five years. Many institutions already fend off cyber-attacks every day. From Insurers' records, to ATMs, and high street banks – cyber-crime has shot to the top of the media and business agenda and planning for that is crucial. The cost of failure is too great, so businesses need to ensure that they are getting the right solutions and processes in place to protect their business and customers, and have a plan in place, should their organisation be threatened or attacked.



Section 3: Planning and navigating the choppy waters ahead

There are myriad challenges and disruptors for financial services organisations around the world – now and in the years to come. From new technologies and cybersecurity, to politics, regulation and compliance, organisations need a plan to forge a successful route forward.

It might seem ironic, but the solution to digitally-exacerbated chaos lies in digital technologies.

Part of the issue today is the speed at which things change. Therefore, any planning or forecasting associated with that needs to be equally as fluid – able to flex to any new regulatory demands, tap into new data sources and give you a clear and complete view of the ever-changing challenges businesses face. It has always been possible to access a variety of external and internal data sources to provide hard evidence to back up insights and assessments when developing plans. In fact, the majority of businesses in our research claimed to have plans in place to respond to the big disruptors they will face: regulation and compliance (78%), cybersecurity (78%), AI and ML (54%), and payments technology (71%).

But planning is one thing – planning effectively is quite another.

Confidence is high across the financial services industry that they can weather the storm that is coming from

all angles – particularly in the US. 86% of business decision makers across the US and UK financial services organisations say that their leadership team “is equipped to succeed in the face of market challenges” – rising to 92% for just the US market. While a similarly impressive 79% believe that their business “effectively plans for what lies ahead” – again rising for the US market to 85%.

Unfortunately, when you delve beneath the surface, much of this confidence appears to be unfounded as our research revealed that a huge proportion of organisations are trying to run their business with inadequate planning tools and processes. Only half (50%) of business decision makers in the US and UK financial services organisations claim to plan with “all departments working from one tool which is updated in real time”. Meanwhile, more than a third (35%) keep planning siloed within departments, 38% use multiple documents for different departments which are then used to try and create one plan for the business and, even more worrying, nearly a quarter (24%) share one spreadsheet across business units.

For an industry that is being constantly disrupted by rapidly evolving technology, chasing ever-changing regulation and compliance and trying to make decisions in a market defined by unprecedented political and economic uncertainty – this is impossible.

To “effectively plan for what lies ahead” and be “equipped to succeed in the face of market challenges” businesses must reevaluate their approach and turn to Connected Planning.

Connected planning uses the latest technology to bring people closer to plans and data so they can make more informed decisions, at the speed of modern business. Organisations have the ability to quickly connect and verify different data sources. Breaking down silos, they can access a clear view of what’s needed in order to formulate and adapt solid, evidenced-based plans.

The key is being able to move fast. The chaos of today might seem like it renders any form of long-term planning redundant, when in actual fact it does the opposite – it necessitates planning, continuously, at speed and as connected as possible. By being able to access and collate critical data sources you can reduce the impact of uncertainty and build realistic, actionable responses to all their potential ‘what ifs’. Those financial services organisations that do so will be in a much stronger position to not only survive the chaos but seize the opportunities that come out of it.

Concluding remarks from Vuealta CEO, Ian Stone

Disruption from every angle and a plethora of challenges – it's chaos at the speed of the digital era. The temptation can be to either panic or freeze motionless in a wait-and-see approach. But this is a dangerous game to play – and perhaps the fastest way to be left behind by more nimble competitors.

It is crucial that businesses remain calm, proactive and pragmatic. Control what you can control and make sure you can react quickly to the things you can't. With effective planning and solid forecasting, you can unlock opportunities, get closer to your customers and inform better decision making – who you hire, how efficient they are, where you invest, what your customers want and what products you need.

This all boils down to taking a connected approach to your planning and forecasting across the business. Only then can you be armed with the insight you need and the speed you require to face the challenges and disruptions that will shape the financial services industry in the years to come.

To find out how you can make the most on Connected Planning within your business, get in touch at:

www.vuealta.com/contact

