ANALYST CONNECTION

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Few industries have been impacted by the global uncertainty more than financial services. It has forced many banks and financial institutions to take a hard look at their current tools and processes as the new normal takes shape.

Navigating Change: The Evolution of Financial Services

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Questions posed by: Oracle

Answers by: Kevin Permenter, Research Director

Q. How are the concepts of corporate responsibility and sustainability reshaping the financial services industry?

A. The pandemic and subsequent disruptions have provided business leaders with several painful lessons. Chief among them is that environmental and social issues have a direct impact on global economic stability and financial resiliency. As a result, the concept of environmental, social, and governance (ESG) has become a factor in every aspect of business from procurement to financing, financial reporting, and human capital management. The momentum of the ESG trend is set to continue well into the future.

While momentum is building for ESG, many financial services firms find themselves scrambling to build the necessary infrastructure to handle reporting requirements. Banks and other financial institutions can see the value of ESG; they understand its potential for reshaping the financial services sector, yet they do not have the skills, processes, and tools in place to tackle ESG's constantly evolving complexities. This is where digital transformation in financial services can play a large role. Banks and other financial institutions must increase their investment in process technologies such as automation and in data analysis technologies such as machine learning (ML) and artificial intelligence (AI). For example, financial services firms can use AI and ML to support fraud detection and prevention by analyzing all financial transactions in real time. Also, AI and ML can be used to automate credit/risk scoring by analyzing past spending behavior and patterns of clients. The software vendors in the financial sector will also need to evolve and take on a trusted advisor role to help these financial institutions navigate the shifting ESG landscape and its multiple frameworks.

Q. How are financial services firms improving their employee experiences?

A. The shift toward digitization is happening to help financial services firms improve the overall employee experience. As competition for talent among financial services firms increases, talent management and employee retention are quickly becoming hot-button issues among financial institutions. As such, many firms are investing considerable time and resources to improve the employee experience. This trend is being driven by the adoption of advanced technologies in key fintech operational areas. For example, financial services firms are tapping into automation technology and AI/ML to optimize leads and territories, set equitable quotas, and streamline expense reporting for their marketing and sales teams. Mobile and data security technology is being used to allow workers to work from anywhere. Big data analytics are being used to align a firm's sales goals with profitability goals and with employee retention and satisfaction metrics. The employee experience trend within financial services firms also is benefiting from the growing momentum for diversity, equity, and inclusion (DE&I) within the workplace. DE&I allows frameworks for creating a more diverse and inclusive workplace, especially as it relates to hiring and promoting in an equitable fashion. DE&I coupled with technology adoption among financial institutions has the potential to dramatically reshape the financial services employee experience in the next three to five years.

Interestingly, many financial services firms are finding that investments made to improve employee experience have a much broader impact. In fact, many financial services firms are realizing quickly that streamlining back-end functionality and boosting employee experience can lead directly to a better customer experience. The challenge will be for financial services firms to break down internal silos between key employee functions such as HR, IT, and finance to unlock the full value of an improved employee experience. Also, firms in the industry must work to pair digital transformation with employee-centric processes and goals such that employees feel free to build deeper and more meaningful relationships with customers.

Q. How can the leaders in financial institutions build a more resilient business?

A. Financial services firms in many ways deal in uncertainty — risk and disruption within capital markets are a constant. Organizations that will be positioned for growth amid this uncertainty are those that work to add more certainty and predictability into their operations. For example, financial services firms that have a real-time accurate view of their key ratios (e.g., efficiency ratio, nonperforming loan ratio, loan yield) will be able to bring a level of internal certainty to core financial processes, including financial close, forecasting, planning, and budgeting. This internal process "certainty" is accomplished by prioritizing the widespread use of innovative technologies and streamlined processes, which act as a rudder amid the waves of disruption — making firms more resilient in the process. There also must be some structural changes to support the successful introduction and adoption of modern technologies. Financial services firms need to push for digital transformation to be an ongoing effort and provide a safe environment for innovation and experimentation and to invest in training and reskilling to maximize the new tools and technologies at hand.

Q. How can financial institutions leverage advanced tools to meet ever-increasing customer expectations?

A. There have been dramatic shifts in consumer behavior and financial services firms' habits of late. Consumers are conducting more transactions remotely, and more organizations have moved away from providing physical services and toward digital service options. A recent article published by CNBC provides a sense of the magnitude and velocity of this shift toward digitization. According to CNBC, U.S. banks closed over 2,900 retail bank branches in 2021 — a record number. Banking is not the only industry where the shift to digitization is happening.

Financial services firms are waking up to the new digital-first reality, which will require many larger organizations to make heavy adjustments to their business models. Large companies traditionally have acted as a collection of smaller entities within an umbrella organization. This has led to many financial services firms suffering from a wildly fragmented technology infrastructure with hundreds of systems involved in key business processes such as finance, customer relationship management (CRM), and HR. This kind of structure ultimately impacts the ability to serve the customer.

To counter fragmentation, banks and financial institutions have been working to modernize their infrastructure. According to our discussions with financial services leaders, similar efforts and investments are taking place in areas such as CRM, sales automation, and HR management. Organizations have also been working to improve their customer service by adopting advanced technology to help shape customer interactions.

Q. As financial institutions continue to outpace change, what technologies will lead the way in a digital-first world?

A. In the past, companies in the industry were slow to implement the latest technology, choosing to deploy a wait-and-see strategy. However, the pandemic and the rise of a new class of competitors have made larger, more established financial services firms speed up their normal adoption curve. A new breed of digital-first customer is also serving to push the industry forward. The technologies financial institutions are adopting include the following:

» **Cloud-native deployment.** This new breed of cloud applications is built on a microservices foundation, which allows, among other things, improved scalability and faster time to market for innovations. These cloud platforms allow financial services firms to adopt cutting-edge technology at a faster rate, potentially impacting everything from profitability to customer experience.

» **Open API/open banking platforms.** Financial services firms exist within a larger network of services and external data sources, including services and data sources from rating agencies, credit bureaus, and commodity/currency markets. All of these services and sources have to be integrated quickly and efficiently to key back-end systems. Open APIs help facilitate this integration, and the momentum behind open APIs and open banking is increasing.

» **AI-enabled analytics.** AI-infused analytics have the potential to help financial services firms with everything from detecting transactional fraud and analyzing liquidity/profitability risks to algorithmic trading in the financial markets. As a result, organizations are planning heavy investments in AI-enabled analytics in 2022 and beyond.

The new digital-first era will be ushered in by an essential group of technologies that will serve as a foundation for the future of the financial services industry. Customer expectations are rapidly changing, and many customers are open to, or even prefer, digital-first services. Firms that build out their operational infrastructure in key areas, including HR, IT, and finance, will be best positioned to thrive in the new normal.

About the Analyst

Kevin Permenter, *Research Director, Financial Applications*

As a research director, Kevin M. Permenter provides insights and analysis across multiple fintech market segments including accounting, revenue management, corporate tax, accounts payable, accounts receivable, and treasury and enterprise payment management. Kevin's research includes a particular emphasis on the interplay, challenges, and trends driving financial application deployment and its role in the evolution of the complex financial technology ecosystem.

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