Top 10 Trends in Financial Services, 2017

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TOP TRENDS IN FINANCIAL SERVICES, 2017

Each year, Aite Group’s clients in finance and fintech use our top 10 trends reports to stay informed, make decisions for the year to come, and expand their business reach. Though it’s difficult to say what will truly happen in the year to come, Aite Group has considered the issues set to affect each of our research areas in 2017—our analysts have made predictions about the things to watch out for, the actions to take, and the technologies readying themselves to gain traction over the next 12 months. This summary offers a glimpse at industry-wide trends and outlines the content available across all five of Aite Group’s top 10 trends reports for 2017:

- Top 10 Trends in Retail Banking & Payments, 2017: Data Analytics Differentiate
- Top 10 Trends in Wholesale Banking & Payments, 2017: Building Use Cases
- Top 10 Trends in Insurance, 2017: The Giant Awakens
- Top 10 Trends in Wealth Management, 2017: The Only Constant Is Change

The top 10 trends reports are part of the rich and diverse research library that Aite Group produces each year. To see any of the full reports or speak to their analyst authors, email sales@aitegroup.com.
RETAIL BANKING & PAYMENTS

2016 was marked by geopolitical turmoil, contentious and polarizing political proceedings in the United States and Europe, a building isolationist sentiment around the globe, and continued escalation of conflicts in the Middle East. With all of this simmering in the background, life goes on for the majority of consumers. Technology has put consumers in the driver’s seat, and they have a growing ability to control their commerce and banking experiences. Financial institutions (FIs) and merchants are increasingly looking to data and analytics to help them better understand their customers’ needs and behaviors and create competitive edge.

- **The customer controls the purchase experience**: Technology has created an opportunity for customers to exercise control of the purchase experience. Merchants and FIs need to create experiences that recognize and respond to this transition if they want to prosper in the next decade.

- **FIs accelerate and deepen financial technology (fintech) partnerships**: Partnering with fintech companies allows FIs to develop a financial ecosystem that creates the best experience for customers and generates new revenue.

- **Banking and payments become programmable**: Innovative FIs are opening up their data for third-party use through application programming interfaces (APIs). FIs that have already invested in this transformation will be ready to monetize opportunities. But FIs that have chosen to wait and see risk revenue loss and disintermediation.

- **Interactive assistants breathe life into static sales processes**: As consumers choose digital channels as their main mode of interaction, FIs are challenged to deliver experiences that mimic the human assistance consumers get in the branch and call center. Through artificial intelligence, FIs can breath life into these interactions.

- **FIs remove friction from authentication**: Authentication methods operating completely or primarily in the background, with little or no inconvenience to the customer, are necessary in today’s environment.

- **Lenders embrace alternative data**: Lenders increasingly use alternative and trended data to strengthen decisioning processes and facilitate greater financial inclusion.

- **Social, mobile, and global tech drive e-commerce growth**: In 2017, digital commerce will continue to evolve by going social, going mobile, and going global.

- **Predictive analytics catalyze consumer engagement**: Predictive analytics will help FIs interact with consumers in a more targeted, personalized, and meaningful way.

- **The use of machine learning for fraud prevention becomes a competitive differentiator**: Better fraud analytics that drive improved detection with fewer false positives will be a competitive differentiator for early adopters.

- **The concept of identity evolves**: The industry will see more options for asserting identity online, with both small and large firms looking to leverage a combination of data attributes and emerging technologies to unify online and offline identities.
WHOLESALE BANKING & PAYMENTS

While change within the commercial banking industry remains somewhat slow, bank initiatives reflect a desire for evolution. Customer demands, internal pressures to identify new fee-based revenue, and competition from the fintech industry are driving change, and industry buzzwords will take on more meaning as banks develop specific use cases and focused implementations.

- **Digital transformation continues**: Some of the more forward-looking banks will leverage digital transformation as a way to differentiate from competitors.

- **APIs begin to open**: By making open APIs available to fintech companies, banks are reversing their position regarding fintech players as competitors and disintermediators. Instead, fintech firms are viewed as partners that help banks innovate and bring new products and services to market faster.

- **Onboarding remains a pain point**: Despite the many uncertainties, automating onboarding at banks globally is an important goal. Banks that achieve this goal will realize significant competitive benefits in terms of client satisfaction, lowered costs, and quicker revenue realization.

- **Same Day ACH and faster payments become a reality**: Great opportunities are ahead for faster payments, particularly once some challenges of 24/7 for businesses and financial markets that have traditionally run on “business hours” are resolved.

- **Blockchain gains momentum**: Banks will collaboratively develop blockchain-based applications that ensure corporate customer identity (i.e., Know Your Customer [KYC]) and enable institutions to share information such as e-invoicing business addresses, corporate identities, corporate authorities, and other publicly available information of firms (e.g., account numbers) through distributed blockchain registry.

- **Return on investment becomes a challenge**: Champions of technology adoption within banks will find it harder to make the case for investments needed to improve their operations’ competitiveness and scalability.

- **Biometrics secure corporate mobile**: While voice authentication seems like it would be a logical choice for mobile banking, Aite Group analysts are expecting to see more rollouts of finger, face, and iris authentication in 2017.

- **Fintech companies continue to drive user experience**: Banks will attempt to learn from the experiences these vendors offer to better meet new customer expectations within their own solutions.

- **Customers get new tools**: Banks and vendors will offer corporate customers and small businesses clear and updated visibility of all sources and destinations of cash.

- **The U.S. presidential election impacts interest rates and regulation**: Credit will likely tighten, and the business of lending to small and midsize businesses will remain the wild west. Regulation is likely to be reduced, but those related to the safety and security of the internet to move funds must be diligently protected.
INSURANCE

The insurance industry in North America, Europe, and beyond is large and complex, and property and casualty (P&C), life, and health insurance segments all set diverse priorities. Nevertheless, trends reaching inflection points in 2017 across these segments reveal an insurance industry giant that is waking up to a destiny shaped by technology.

- **Cyber insurance moves beyond data breaches**: As cyber risks continue to morph, commercial P&C insurers and brokers will accelerate the evolution of cyber risk coverage well beyond data breaches. Insurers will have a multipronged approach to strengthening their offering.

- **Telematics make significant headways in personal and commercial auto insurance**: Telematics programs will make significant headway in personal and commercial auto insurance, leading the insurance industry’s transition to leverage the world of the internet of things (IoT).

- **Insurers prioritize engagement strategies that leverage IoT data**: More P&C, life, and health insurers will prioritize engagement strategies that leverage IoT data, making the insurance industry one of the pre-eminent use cases for the IoT.

- **Insurers focus on new ways to cut costs within service and operations**: Insurers will focus on finding new ways to generate cost savings within service and operations to compensate for a difficult interest rate environment and subdued growth opportunities.

- **Insurers focus on improving customer experience in underwriting**: Insurers will be under renewed pressure to simplify the purchase experience, as consumers get exposed to even simpler checkout experiences at leading retailers, such as those at Amazon Go stores.

- **Insurers increase partnerships with online distribution players and expand their own capabilities**: Life and P&C insurers will increase partnerships with online distribution players and will expand their own e-commerce capacities.

- **Life insurers explore using analytics, machine learning, and artificial intelligence to drive sales**: Life insurers will actively tinker with using analytics, machine learning, and artificial intelligence to drive sales growth.

- **Health Savings Accounts (HSAs) gain clout**: While the Affordable Care Act will attract all sound and fury in the U.S., HSAs will quietly gain greater prominence.

- **U.S. health plans achieve breakthroughs in fraud prevention**: As vendors reap the benefit of an enterprise-wide transformation taking place in health plans since 2014, health plans will achieve some performance breakthroughs in fraud management.

- **Health plans get serious about bill payments**: Commercial health plans will accelerate their investment beyond premium bill payments and into medical bill payments.
INSTITUTIONAL SECURITIES & INVESTMENTS

If capital markets had one defining characteristic in 2016 it was volatility, and it doesn’t look like 2017 will be any different. A lengthy global recession and a high degree of regulatory uncertainty are in the cards due to upcoming elections in key jurisdictions and post-election political changeovers. Capital markets participants will face continued pressure to cut operating costs and comply with regulations that may eventually be repealed. This environment isn’t conducive to sustained investment in technology, so how will this impact fintech pilots and startups?

- **Consolidation in all corners continues**: Tough market conditions, scrutiny over client profitability, the drive for lower total technology cost of ownership, and incoming regulation have created a perfect environment for consolidation in different market segments, such as within the mega-vendor community and infrastructure providers.

- **Europe sees regulation-driven panic buying**: Panic buying is expected to take place in mid-to-late 2017, with heavy spending on analytics services to identify best execution practices for each trading case. Many more asset managers will opt to trade and transaction report directly rather than delegate to a sell-side counterpart because of complex data flows and the buy-side’s liability for accurate reporting.

- **Cybersecurity standards emerge**: Aite Group expects a slow transition from self-sufficient cybersecurity efforts to a more collaborative approach in areas such as threat sharing. In 2017, more common cyber-defense methods and standards will emerge as minimum requirements to preserve common working ecosystems.

- **The traditional sell-side bank unbundles**: Driven by regulatory changes that have severely limited their ability to take risk and substantially increased capital requirements, the unbundling of the traditional sell-side bank will hit the mainstream over the next two years. Given limited resources and an unwillingness to take unnecessary risk, the traditional sell-side will continue to divest businesses and operations that are perceived as no longer vital to its future growth.

- **Flash crash fallouts continue, and outages are incoming**: Aite Group believes the capital market industry will grant inspectors access to computer source codes of algorithmic market-making strategies. Even with the expectation of more market fragmentation and increasing complexity from venues that provide specialized solutions, Aite Group is hopeful new regulatory proposals will allow the industry to avoid repeated episodes of flash crashes down the road.

- **Cognitive tech crests the hype curve**: Aite Group expects financial institution reliance on cognitive solutions for more effective answers to complex challenges involved in trading, compliance, surveillance, trade reconstruction, risk management, and other activities to increase significantly over the next 24 months.

- **Reality sets in for distributed-ledger-technology (DLT) pilots**: Venture-capital-based investments in blockchain and DLT, reflecting slow adoption of the technology, have been plummeting since the beginning of 2016 in number of deals and in amount
invested. Aite Group expects to see DLT hype in capital markets reduce dramatically in 2017 and a high number of DLT pilots run out of funding and fall by the wayside.

- **Testing times are ahead for the fintech consortium model:** Consortia, which require firms to sit around the table and agree on common goals and processes, are not a natural fit for rapid and efficient innovation. It is hard enough to agree on standards at a firm level, let alone across a community, and the more diverse the group, the bigger the impediment to collaboration. Aite Group anticipates that 2017 could prove a make-or-break year for one or more of the capital markets fintech consortia.

- **Regulatory change management matures:** In 2017, institutional broker-dealers and asset managers will accelerate the maturity of their regulatory change-management programs. This will manifest through increasing investment in technology to better utilize existing resources and reduce operating costs, satisfy regulators, and ultimately forecast the potential impact(s) of new and changing regulations on their products and business lines.

- **KYC and client data investment increases:** The industry at large might be best served by an industry-owned, managed service that centralizes KYC, anti-money laundering, and due diligence data across jurisdictions, but there are still too many options on the market. Aite Group anticipates that 2017 may see some shifts in this landscape, with potential consolidation and strategic exits in the cards.
WEALTH MANAGEMENT

The decisions reached in 2016, such as the Department of Labor’s (DOL’s) fiduciary rule, Brexit, and the U.S. presidential election, are shaking established systems at their core and create a tremendous amount of uncertainty for the wealth management industry. Threats and opportunities lie ahead for wealth management firms, and being able to respond quickly to new market situations and regulatory requirements will serve firms well.

- **A new president makes a new legacy**: The policy shakeups underway by the incoming U.S. administration appear to be supportive of something developed nations nowadays lack: higher inflation and interest rate expectations. These twin factors drive investors’ savings-product decisions and trading activity in fixed income, something that wealth management firms must respond to.

- **Work on DOL’s fiduciary rule continues**: As of today, all parties remain in motion, each striving for a goal. The industry is in a wait-and-see mode; however, FIs must continue with their work. For FIs with momentum building their fiduciary evidence, and in particular those that have found the rule somewhat easier to implement, any delay or modification to the rule will inspire a new sales campaign.

- **Regulation jumps back to the top of the agenda**: Regulatory change has not gone away and is set to further force itself back to the front of the strategic agenda for wealth managers, especially in Europe. The extent of the business-model change required, along with the need for possibly deep process and infrastructure change and improvement, is significant.

- **Business models change**: Wealth managers must open their businesses up to the market’s new needs and demands. Ideas, innovation, and change can come from anywhere, and a successful wealth management firm in the future will not likely be one that develops its ideas, products, and solutions entirely in-house.

- **New segmentation and service models arise**: To align themselves against the fierce competition of firms targeting retail investors across all segment levels, private banks are forced to re-evaluate their products and services and open up to new business propositions with the help of digital technology.

- **Robo-advice platforms spread**: 2017 will see a new wave of entrants into the robo-advice space due to the looming DOL rule that has forced many full-service wealth management firms to step up the development of digital advice platforms. Beyond this limited initial scope, innovative full-service firms will find many other ways to benefit from their investment in digital advice.

- **Firms adopt digital self-service and hybrid investing models**: Successful firm strategies will rely on multiple service and delivery models to grasp a larger wallet share across multiple customer segments. Careful evaluation of self-service front-office technologies for clients and automation of selected advisor tasks will be key to creating efficiencies and new revenue opportunities at firms.
• **Fintech acquisitions continue:** 2017 will bring many more fintech transactions, with the focus on critical technology pieces that help with some of the next 12 months’ major activities. As the lines between business and technology strategy blur, being in control of the key technologies that allow businesses to evolve and modernize their service models is more important than ever.

• **Inorganic intelligence emerges:** Technology disruption in financial services is swinging for the fences, and clearly challenging times call for a new level of business performance. New advancements in 2017 and beyond will cause firms to rethink their operations and client interactions in light of inorganic intelligence’s new opportunities. This is just the beginning.

• **Chaintech moves into the global regulatory crosshairs:** Wealth management firms have a generational opportunity to imagine and re-engineer the delivery of their services in a pure digital format. Further delay adopting new technologies such as blockchain will start to translate into market share loss, while the most efficient firms will prevail.
ABOUT AITE GROUP

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