Forbes insights

# The FinServ Future:

## Challenges And Opportunities On The Road To IT-Driven Customer Experiences And Business Outcomes

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# Introduction

## The financial services industry finds itself at an inflection point.

The field has recently seen massive innovation—in areas like peer-to-peer payments and automated fraud management, for example. Yet always-escalating expectations and an influx of new entrants mean that players in the industry can't rest. Great challenges await them, as well as great opportunities. And as often happens on the leading edge of technological transformation, the challenges and opportunities can be indistinguishable from one another.

As financial transactions become faster and more seamless, not to mention greater in number, financial services firms are uniquely positioned to benefit—if they can succeed in meeting customer demands that constantly become more exacting. Firms will win if they can facilitate transformative cutting-edge experiences for customers—even as they also ensure stability and trustworthiness. And that's not even to mention firms' needs to stay true to their founding commitments and respectful of regulatory mandates as they throw themselves into the innovation race.

The result is a high-pressure environment—one to which financial services executives are acutely sensitive.

To better understand how leaders view the challenges they face and how they're charting their organizations' paths forward, Forbes Insights surveyed 300 U.S.-based C-level executives at financial services firms. These firms specialize in a number of disciplines, including asset management, commercial bank-ing, financial technology (fintech) and regulatory technology (regtech).

Each executive represented a company with at least $100 million in annual revenue. Respondents included chief information officers, chief technology officers, chief information security officers, chief digital officers, chief data officers and chief security officers.

The research found that industry executives are committed to long-term success in the digital-first marketplace—while also concentrating on shoring up their talent bases for the years and challenges ahead.

# The Transformation Imperative

Across the industry, **digital transformation** is clearly the top priority. Half of all respondents identified such transformation as one of their three most important objectives for the years ahead, well ahead of other areas of focus:

**Which of the following are most important for your organization or role over the next three years?**

*(Select top 3 of 13 possibilities)*

**Top Responses:**

| | |
|---|---|
| Digital transformation (e.g., digital banking) | 50% |
| Omnichannel customer experience | 36% |
| Data-related regulations | 32% |
| Hiring and retaining talent | 31% |

**Other Responses:**

| | |
|---|---|
| Regulatory environment | 25% |
| Fluctuating interest rates | 22% |
| The general direction of the economy | 21% |
| Zero-cost financial services | 20% |
| Changing demographics (younger generations) | 17% |
| Creating and maintaining people-centric and modern employee experiences | 15% |
| Social and political mood | 13% |
| Non-financial companies offering financial products and services | 11% |
| Responding to disruption from fintechs | 8% |

## Industry insiders aren't surprised.

"Customer expectations of our industry are changing so incredibly rapidly, largely based on their digital experiences in other industries that have bled into what they expect from ours," says Amy Brady, CIO and executive vice president for KeyCorp. "In every segment, in every service, customers want fast, seamless digital experiences at their fingertips."

With high-speed, low-latency 5G wireless networking on the immediate horizon, Mastercard president of operations and technology Ed McLaughlin says, the rate of change and accompanying pressures will only grow: "Right now for many consumers, if it's not instant, it's broken. 5G will speed up everything."

Providing **omnichannel customer experiences** will also be a top priority (36%, second place) for banks in the years ahead. Omnichannel, of course, is often conflated with digital technology. But experts insist that financial services firms need to maintain strength in, and continue to focus on, conventional channels even as new avenues of interaction develop. The situation now might be compared to the one that developed when automated teller machines arrived on the scene. Once ATMs could perform simple tasks, like providing cash and bank account information, bankers were freed up to deliver higher-value services.

HSBC's experimental Pepper robot serving in-branch customers is just one example of the potential that exists in blending high technology with "old-fashioned" service.

"The most satisfied customers are those who are engaged in both the digital and physical channels," says Jeremy Balkin, head of innovation and strategic digital partnerships at HSBC Bank USA.

Omnichannel service also brings both the opportunity and the imperative to reevaluate services. Indiscriminately amplifying every message through every possible channel can overwhelm customers instead of making things easier or more appealing for them. Giving them too many options, for example by offering various ways to perform the same basic transaction, could be disorienting.

"In the early days of digital, people put everything they could think of up on the web and mobile," says Scott Blandford, TIAA Financial Solutions' chief digital officer and head of technology. The result was often difficult to navigate, as many who used early banking websites and phone interfaces can attest. Blandford advises peers to instead pursue what he calls "digital lightness" as a strategy.

"It means simplifying and distilling the messaging, with fewer words and fewer images, so you can focus the users on just the right stuff," he says. "And it requires deep personalization so you can focus on what that right stuff is."

In a virtual tie for third place when it comes to organizational priorities are **data-related regulations** (32%) and issues associated with **hiring and retaining talent** (31%).

Regulation is nothing new for financial services. Pressure to innovate faster, however, can make the usual pace of regulatory change seem like a limitation. Jamie Warder, head of digital for KeyBank, recommends looking at regulation as a necessary and integrated element of the financial services ecosystem.

"Maintaining proper security is part of being a safe and sound institution," Warder says. "I'm a believer that regulation is actually a bare minimum and that the best institution should be setting standards above and beyond regulation."

Meanwhile, it's larger financial services organizations that most keenly feel the talent gap. Among C-suite executives at firms with revenue below $1 billion, 27% say hiring and retaining talent is most important for their organization over the next three years. At larger organizations, 34% agreed.

But the pressures were similar across titles, suggesting that the talent gap affects the industry broadly—and that coping strategies may be more universal than they are line-of-business or discipline-specific.

# New Services, New Entrants, New Growth Strategies

Seventy-five percent of surveyed executives agree that financial services are under significant pressure to bring new services to market more quickly and to provide superior customer service. That pressure is the result of a more crowded field: The list of fintechs, cloud providers and API-driven service providers making their mark on the industry is always growing.

But the effect looks more like an opening of many doors than it does like disruption in the negative sense.

Seventy-two percent of survey respondents see cloud services as a transformative technology. Sixty-seven percent of survey respondents see API integrations as one.

What about fintechs as a transformative phenomenon? As noted earlier, "responding to fintech disruption" was actually the least-cited leadership priority among our survey group. That's because fintech entrants to the marketplace are increasingly viewed as complements rather than as replacements or direct rivals.

The potential for partnership and for the joint development of new markets, in fact, is much more salient than the perceived threat of obsolescence.

"I think what's often lost in the banking/fintech debate is that at the end of the day we all have to work together," says HSBC's Balkin. "We're in an era of collaboration, which is why API integration is so important, and why banks replacing legacy systems with more modern architecture that is cloud-enabled is absolutely essential."

"Working together with cloud, API and/or fintechs to develop scalable services that benefit a wide range of customers is the path forward for most financial services organizations," says Ed Calusinski, vice president of enterprise architecture at Discover Financial Services. "I think there's tremendous opportunity for improvement there, especially in organizations that have multiple generations of heritage technology like client/server or mainframe, to integrate and operate across multiple clouds with what you have within your own data centers."

Brady warns that cloud providers were not created equal and that institutions need to look beyond the promises on a spec sheet. "They've all built on the cloud and are readily able to scale, but you really do have to pressure-test that a bit," she says. "You need to make sure that they can scale to the volume that our institutions bring and that our client bases bring to those services."

And as KeyBank's Warder points out, there are multiple engagement strategies available to traditional banks and institutions when it comes to fintechs. These include partnership, investment and acquisition. KeyBank, indeed, acquired the fintech startups Laurel Road and Bolstr.

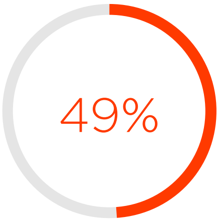
"If we're invested in them as a primary investor, we can help set their agendas going forward. In other cases, we've actually acquired and integrated them into Key," Warder says.

Only 20% of respondents said that acquiring fintechs or regtechs was a top growth strategy. The acquisition strategy, meanwhile, isn't concentrated among the biggest banks with the deepest pockets. In fact, most of the executives who stated a preference for that strategy represent organizations with less than $1 billion in annual revenue.

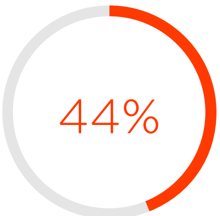
Ninety-six percent of leaders surveyed say they need to focus on more than their established core competencies in order to grow successfully. The growth strategies our respondents say will characterize the three years ahead stress new products and services, along with a wider reach and bigger digital footprint.

**Which of the following growth strategies will be most important for your company to pursue over the next three years?**
*(Select up to 3)*

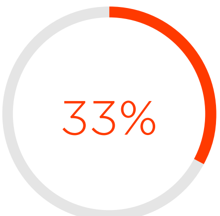
**Top Responses:**




Introduction of new products or services



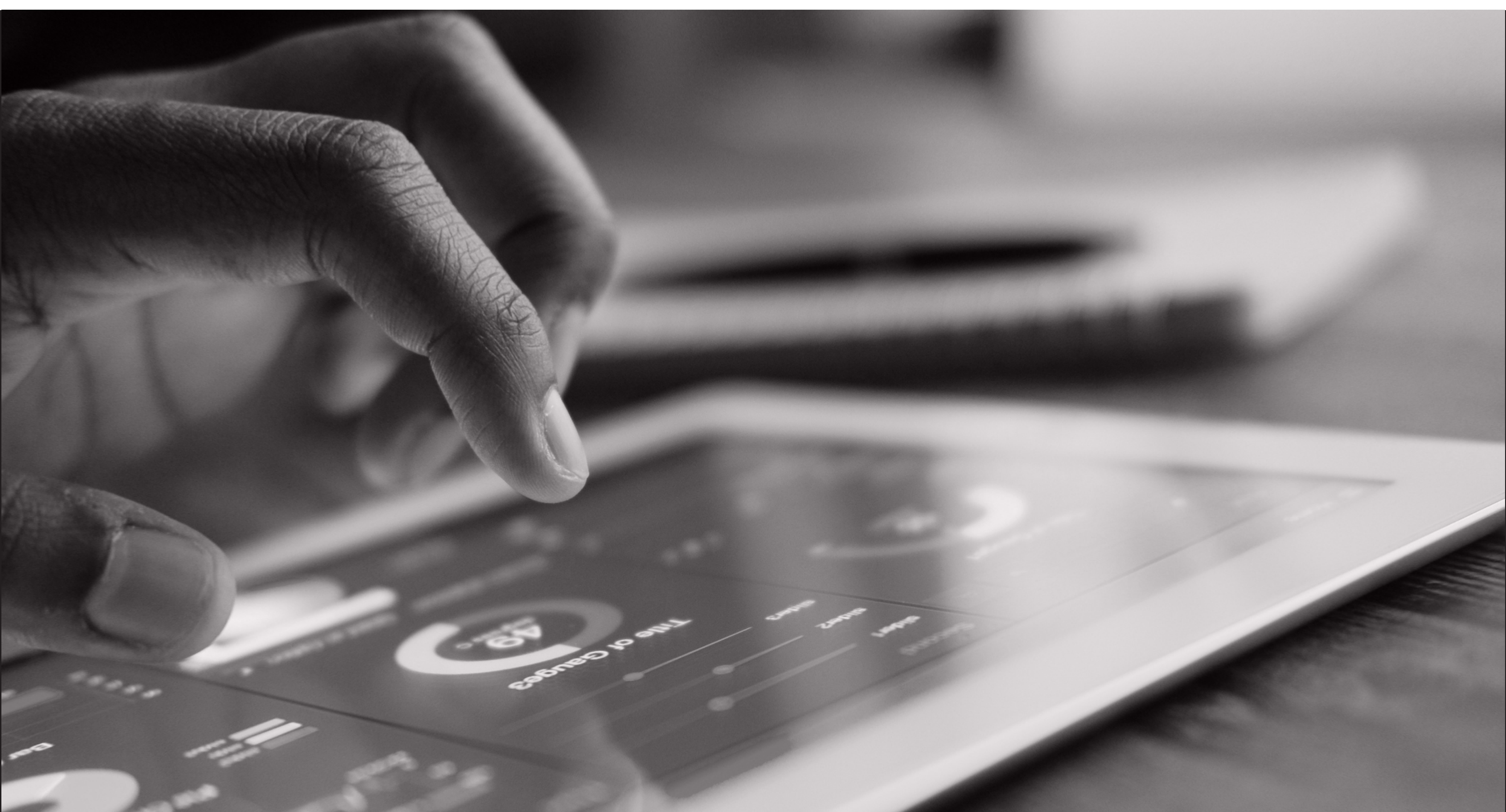

Expanding distribution networks




Expanding digital initiatives

**Other Responses:**

| | |
|---|---|
| Hiring innovators and growth strategists to implement new ideas | 27% |
| Expanding international geographic footprint | 21% |
| Mergers or acquisitions with traditional organizations | 21% |
| Expanding domestic geographic footprint | 21% |
| Collaborations with fintechs or regtechs | 20% |
| Mergers or acquisitions of fintechs or regtechs | 20% |
| Aggregation or platform model (becoming a one-stop shop by offering third-party products) offerings | 16% |
| Expanding into non-banking areas (e.g., accounts receivable, billing platforms) | 14% |
| We're focused on our core competency | 4% |



API-driven services and the cloud are creating new platforms for products and opportunities that can help all participants in the financial services ecosystem thrive. McLaughlin points to the recent launch of Apple Card, a high-profile partnership. "It's a reinvention of a traditional product, where Mastercard, Goldman Sachs and Apple are combining expertise, deeply entwined with Apple's platform," he says.

The Apple Card project involved digitally linking messaging and authentication technology to the Apple experience and pushed the partners to deliver outside of their usual boxes. "They took our APIs and services and combined them in a way which is very, very natural and native and specific to their ecosystem," McLaughlin says.

Executives also recognize that life isn't going to get any easier given an accelerated new product cycle. Over 91% of surveyed executives agree that they face constraints implementing and integrating advanced technologies. The most commonly cited challenge was the need to prove ROI and value creation in the short term. It was selected by 42% of respondents.

Further complicating these decisions is the growing realization that the short term may never become the long run. "Gone are the days when we put in a platform and it's going to run for 30 years. We're finding now that five years later you may be ripping it out to put the next thing in," KeyCorp's Brady says. "So it's really important to have change readiness in your organization and to know your employees can absorb that amount of change."

Financial services leaders also made it clear that their chief challenges include confusion over selecting the right partners (30%, third place among nine possible constraints) and finding enough time to commit to innovation (26%, fourth place). To address these challenges, banks and other institutions need to carefully seek out partners who understand their industry and can help them concentrate on innovation with the required intensity.

"Consumer banking is regarded by many customers as probably lagging other industries in terms of innovation or digitization," HSBC's Balkin says. "Here in the U.S., in the world's largest economy, with the deepest, most concentrated banking sectors, we need to be fostering innovation and digitization to meet and exceed customer expectations. I think it's incumbent upon all of us."

**What are your organization's top challenges in terms of implementing and integrating advanced technologies to transform the customer experience?**

*(Select up to 3)*

**Top Responses:**

| | |
|---|---|
| Need to prove ROI/value creation in short term | 42% |
| Compliance issues | 41% |
| Confusion over which partners to work with | 30% |
| Lack of time to commit to innovation projects | 26% |

**Other Responses:**

| | |
|---|---|
| Lack of advanced technical skills in the workforce | 22% |
| Insufficient infrastructure to support the use of advanced technology | 21% |
| Lack of budget | 20% |
| Inability to use cloud-enabled APIs | 20% |
| Lack of technical acumen | 16% |
| We are not constrained | 8% |

# Risk Mitigation And Cognitive Tech's Role

Tech innovation is certainly a key to driving growth—by offering customers new digital experiences, for example. But it's also crucial to dealing with risk.

"New guard" regtech and fintech companies are notably more likely than financial services incumbents to see five technologies as important to IT risk mitigation:

- API/microservices management
- Capacity tools
- Cloud configuration
- Workload automation
- Artificial intelligence/machine learning

The only area the old guard favors significantly more than the new guard does is IT asset management/discovery. That's likely because old-guard companies will tend to have more deeply entrenched legacy systems, greater numbers of physical locations, and in general more difficult-to-manage systems.

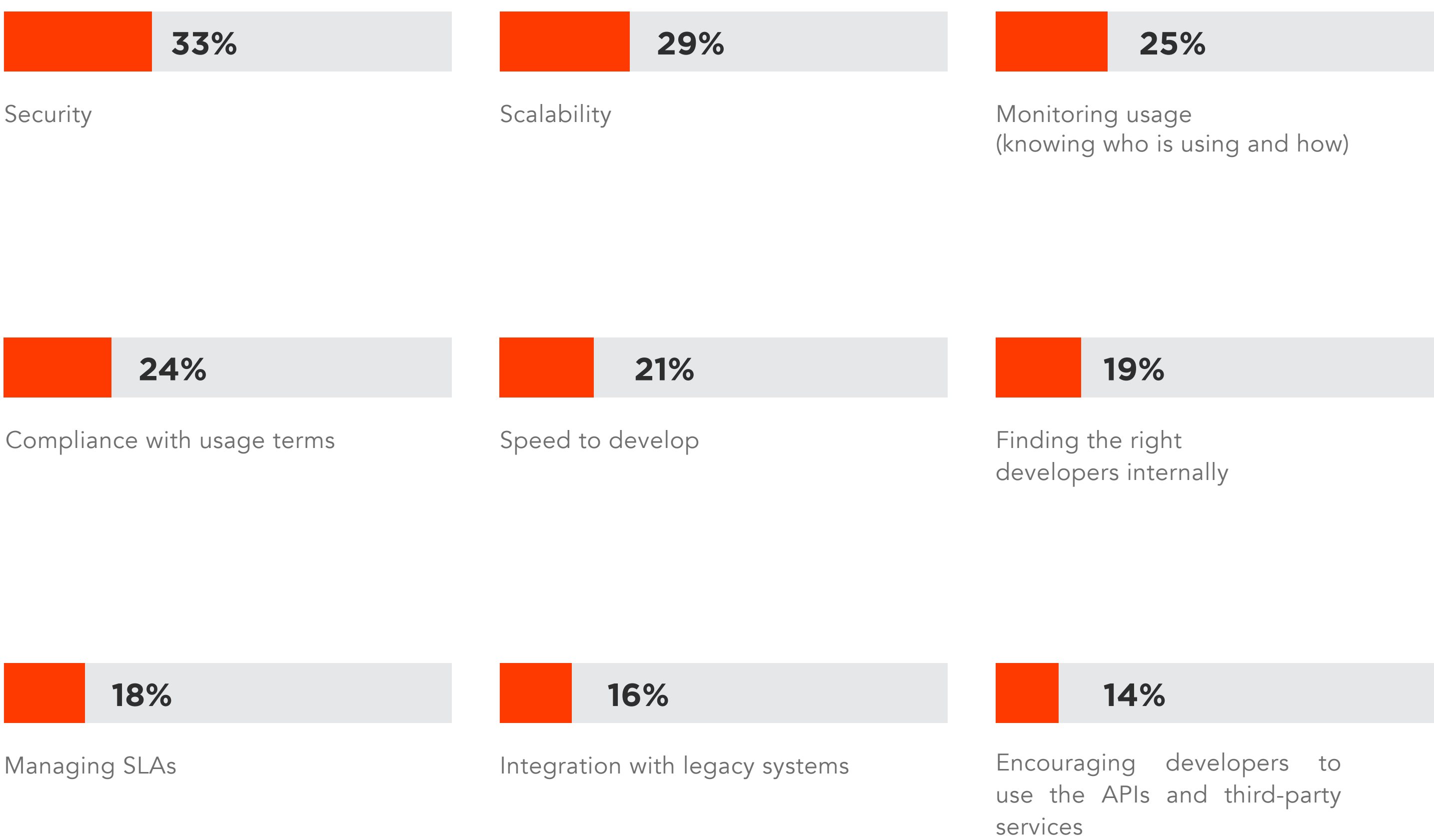
Despite the gap in opinion between old and new entrants, most companies see the value of both artificial intelligence and machine learning. Seventy-eight percent of all respondents see AI as a transformative tech, while 80% see machine learning as one.

**Which of the following measures is your organization using to mitigate the IT risks of digital innovation?**
*(Select all that apply)*

| | Total | New Guard (fintech and regtech) | Old Guard (all other financial services organizations) |
|---|---|---|---|
| Monitoring | 60% | 59% | 60% |
| Vulnerability management | 60% | 59% | 60% |
| AI/ML | 57% | **61%** | 56% |
| Mainframe security | 53% | 53% | 53% |
| IT asset management and discovery | 46% | 35% | **49%** |
| Cloud configuration | 44% | **50%** | 42% |
| IT operations analytics/visibility tools | 43% | 46% | 42% |
| Service desk automation | 36% | 36% | 35% |
| Capacity and availability tools | 35% | **42%** | 33% |
| Workload automation | 35% | **43%** | 32% |
| API and microservices management | 34% | **42%** | 32% |

Though the use of cognitive technologies to create experiences for end customers attracts a lot of media attention, their greatest potential may be in back-office and risk mitigation settings. Mastercard's McLaughlin explains: "We have an AI platform which can allow us to observe how you use a digital device like your smartphone, and I immediately see if it's not you trying to access your account, then block it and stop it, and make sure more and more of the transactions you do want to do go through. It doesn't have to ask you for a password. I don't have to bother you anymore. I can just let you do what you want to do."

**What are your top challenges with designing, delivering and maintaining new services for your customers?** *(Select top 2)*



# Responding To Regulatory Pressure

With data-related regulations top of mind for financial services leaders, it's unsurprising to find that overall regulatory pressures are also leaving a mark. Sixty-five percent of surveyed executives agree that financial services firms are experiencing increased regulatory pressure to deliver seamless, integrated, secure services without failure. And when they were asked to name the top two challenges to service delivery, security was the top concern, with scalability second and authorized usage monitoring third.

Financial services leaders should consider addressing these challenges in a focused way by attacking problems related to identity and authorized usage. Their doing so would both serve business objectives and appeal to regulators who want firms to offer greater certainty and reduce risk of fraud.

"Anything that can be done to increase the confidence that people are who they say they are becomes very important," Calusinski says. "There's a lot of work being done there, because new products and services can really be enabled at a much more rapid pace when there's absolute certainty in that regard."

The regulatory landscape does create some opportunity costs for financial services leaders. Nearly half (46%) of surveyed executives agree that the effort required to comply with increased regulatory pressure and requirements degrades their ability to invest in new digital initiatives.

When executives were asked about measures to address specific business resiliency challenges, few strategies emerged as dominant. The only resiliency measure that a slim majority of respondents currently use is cost and vulnerability management, which 52% of respondents have adopted.

Bringing up the rear when it comes to resiliency measures are collaboration with industry peers (39%), increased audits/assessments (37%) and more clearly defined ownership of resiliency (37%).

**What measures is your organization taking to overcome regulatory issues related to business resiliency?** *(Select all that apply)*

This bunched data suggests that the industry is still searching for best practices when it comes to resiliency. Respondents were confident, however, in their ability to overcome both regulatory and resiliency challenges. More survey respondents were confident in their three-year plan to tackle resiliency and security (82%) than they were in their ability to avoid disruption through innovation (75%) or to attract and retain top talent (77%).

The survey found, moreover, that regulatory pressures and associated risks do not paralyze executives. Only 15% of respondents felt that the risk of downtime or of data breaches keeps them from digitally innovating to their full potential. Notably, representatives of "new guard" fintech and regtech companies manifested the greatest concern that downtime could hurt innovation. Twenty percent of executives at such companies saw downtime and data breaches as issues.

Technology will play a growing role in resiliency and protection in the years to come.

"We've instituted AI throughout our internal processes just to better enable us to deliver safe and sound products to our customers while running in a heavily regulated industry that requires a high degree of security," Calusinski says.

# Matters Of Talent

Financial services leaders frequently feel like they're in competition for talent with both startup fintech/regtech firms and global tech specialists.

There is some truth to that. KeyBank's Warder, however, thinks that this situation offers the perfect opportunity for established financial services firms to learn from those tech innovators—to paint the kinds of compelling pictures that they do in order to land the best hires. Simply emphasizing the benefits of working with a large, trusted, stable banking organization isn't enough these days.

"You have to have a good story," Warder says. "You have to be talking about what you're doing from a mission perspective. These folks want to ship product, they want to create interesting things, they want to feel like they're doing something above and beyond just writing code day-to-day."

Hiring, development and retention are all complex processes, none of which can be approached with a one-size-fits-all solution. The challenge is real, and our surveyed leaders are definitely feeling the pinch. Sixty-five percent of them agree, for example, that financial services firms struggle to hire and retain top talent.

Yet it's actually the new guard of fintech and regtech companies that are feeling the talent crunch most keenly. Eighty percent of new-guard respondents said that the talent struggle is a pressing matter to them, compared to 61% of respondents from all other financial services firms.

The reason? It could have significantly to do with the fact that the startup life isn't always everything it's advertised to be—and that many qualified candidates know that.

> "Often the startup life is glamorized in ways that are really inconsistent with the reality of just how difficult it is," HSBC's Balkin says.

"Often the startup life is glamorized in ways that are really inconsistent with the reality of just how difficult it is," HSBC's Balkin says. "It can be just as attractive to have the stability of being part of a larger organization that has a huge customer base, that has history, that has a clear market share." That's in distinction, he says, to "a small company that's fighting for funds and customers and market share in a competitive marketplace."

TIAA's Blandford agrees. "People really want to make a difference with their work. Technology people, in particular, want to build great things, support great things and design great things," he says. "What I find effective in bringing people here is to make sure I create an environment where they can be creative at work and deliver things that actually ship to customers."

For the past few years, TIAA has organized a number of projects using a "Tiger Team" model, which assigns a small, focused team to a difficult challenge and gives them a firm 45-day deadline by which to ship a solution.

"With just a handful of people, hardly any budget and only 45 days, it's unbelievable how much creative thinking comes from that," Blandford says. "And it wouldn't happen if we created a project plan and business case. We're building startups in 45 days, but with the resources of a big company. And our talent gets to work on real things that ship to people and help make their lives better."

The significant uptake of workload automation, which 56% of respondents say they will increase in order to enable digital innovation in the next three years, could also have an impact. Automating mundane tasks can make innovation easier. It can let a firm stop wasting talent on menial operations and create a desirable work environment that attracts more and better candidates.

Meanwhile, AI services are proliferating to the degree that not every firm will need a dedicated staff of AI experts.

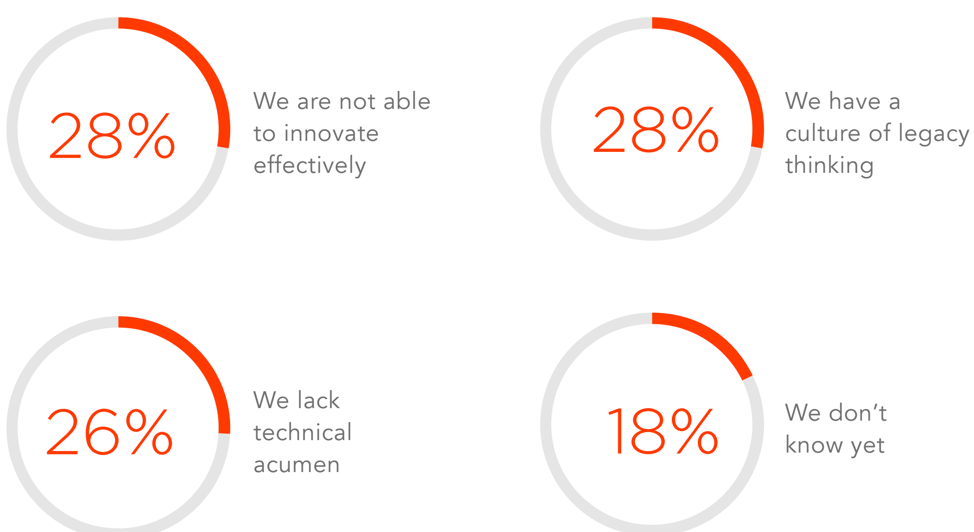
"General-purpose artificial intelligence, things like speech to text or the ability to do facial/image recognition, really doesn't require you as a company to have the corpus of knowledge to do the training of the models," Calusinski says. "As you start looking at much more complex techniques around neural networks, deep neural networks and machine learning, that requires you to have a certain skill in the organization."

The overall talent struggle manifests itself not just in hiring metrics, but in some very core organizational metrics as well. Forty-two percent of our surveyed executives who were not completely satisfied with their organization's ability to attract and retain talent, for example, indicated that the talent question is directly connected with missed growth targets. The next most common response indicates that customers ultimately notice the talent issue as well: "decreased customer experience" was in second place, cited by 33% of respondents.

**What impact is the inability to attract and retain top-notch talent having on your organization?** *(Asked of respondents who were not extremely satisfied with their organization's ability to attract and retain top-notch talent)*

**Top Responses:**


**Other Responses:**



# Conclusion: Into The Digital Future

This survey reflects a financial services industry ready to make significant investments in order to advance innovation—while also recognizing the value of trusted relationships:

- 56% of companies are planning to significantly increase the use of workload automation
- 61% are planning to significantly increase the use of capacity management
- 76% are planning to significantly increase the use of security vulnerability analysis
- 93% are planning to invest more in artificial intelligence and machine learning.

Like most industries, financial services is preoccupied with cognitive technology. It was the only investment area in which more than half of surveyed executives plan to grow spending by more than 15%. But security and monitoring also filter near the top of that investment list.

**Over the next three years, how will investment levels in the following technologies change for your organization?** *(More than 15% increase in investment over the next 3 years)*

| | | | |
|---|---|---|---|
| AI/ML | 58% | API and microservices management | 40% |
| Mainframe security | 48% | IT operations analytics/visibility tools | 39% |
| Monitoring | 46% | Capacity and availability tools | 38% |
| Cloud configuration | 45% | Workload automation | 36% |
| Vulnerability management | 44% | Service desk automation | 32% |
| IT asset management and discovery | 43% | Other | 3% |

## Cloud investment, too, will grow in importance and urgency across the board.

"If you don't have modern cloud-enabled architecture, it's kind of like lining up at the Indy 500 with a bicycle compared to these high-performance sports cars," HSBC's Balkin says. "That's why we spent hundreds of millions of dollars in the U.S. on building a new architecture that enables us to work with the big cloud providers. And we've done that because you have to have the tools to be competitive."

Despite that some financial services firms trace their origins to the era before electrical grids, let alone to the era before wireless networking, in most ways both the new guard and the old guard in financial services face similar challenges. Their approaches to tech and talent are more similar than different. Where there are differences, both can learn from each other.

"I do think that part of my job is to help a 200-year-old company start behaving like we were born digital," KeyCorp's Brady says.

And insiders at large, established institutions are optimistic about the prospect that traditional financial services firms and startups can work together to design and deliver exciting new products to customers. It's in all of their interests.

"Partnership is essential," Mastercard's McLaughlin says. "We've always been a platform that we want people to build great businesses on, and that's been an awesome business for us. Working in services and having people all around the world innovating using services you provide is fantastic."

This is not the first time technology has offered dividends to the financial services industry, of course. Banks have been adapting to technology since punch cards and primitive optical character recognition. Today's inflection points are really just additional stages in a much longer project to combine the right technology with the right talent to create new and innovative customer experiences.

Says HSBC's Balkin: "The banks that get it right now and realize that there are actually benefits to incumbency, and having a balance sheet, and having loyal customers, and that are innovating in a robust way to meet current needs and the needs of their future customers, I think will ultimately be successful."

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### ED CALUSINSKI

Vice President of Enterprise Architecture at Discover Financial Services

### ED MCLAUGHLIN

President of Operations & Technology at Mastercard

### JAMIE WARDER

Executive Vice President and Head of Digital Banking at KeyCorp

# Methodology

## Forbes Insights and BMC surveyed 300 members of the C-suite from U.S.-based financial services firms about the changing landscape of their industry in November 2019.

Respondents included chief information officers, chief technology officers, chief information security officers, chief digital officers, chief data officers and chief security officers. Respondents represent a broad range of sectors within the financial services industry. All executives were from organizations with annual revenue of $100 million or more, with 50% from firms with $1 billion or more in revenue.

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