The State Of Digital Transformation In The Finance Industry

Implementing modern technology into your business to optimize operations

White Paper

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Introduction

Innovations in the banking industry such as a marketplace or peer-to-peer lending, mobile money, insurance tech, crypto-assets, and robo-advice have emerged worldwide are are transforming the financial and banking services sector. FinTech has driven access to retail users. Plus, cloud services, distributed ledger tech, and artificial intelligence are transforming the wholesale market in areas such as financial market trading, regulatory technology, and supervisory technology.

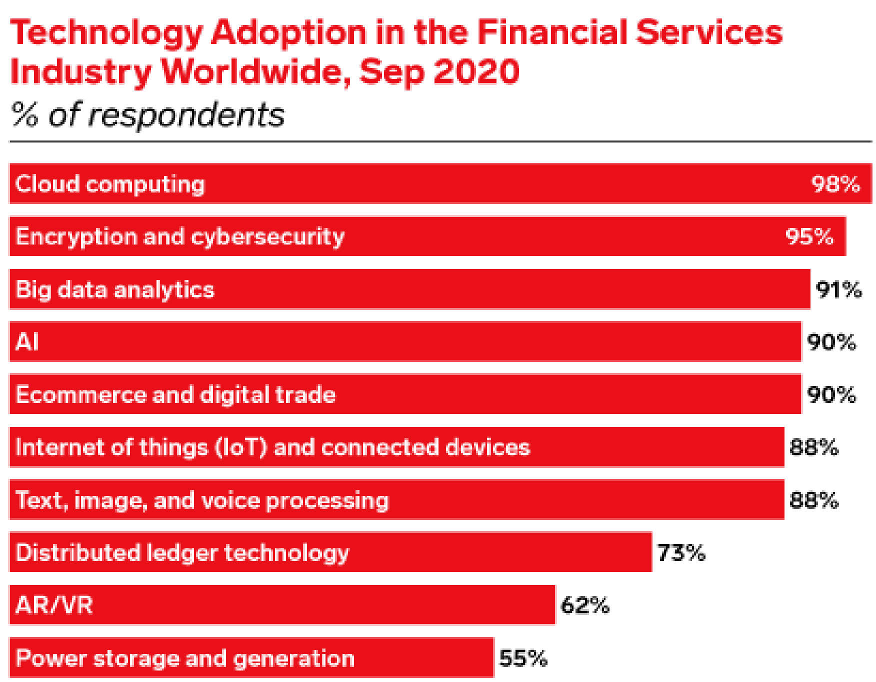
New banks are emerging and applying better technologies to fulfill consumer demands. Some of the top banks even aim to close gaps in the digitization of customer offerings and internal processes to compete with fintech and large technology firms.

Digitization can make the banking and finance sector diverse, efficient, inclusive, and competitive; however, it can also increase concentration and security threats. This white paper will address digital transformation in the finance industry, its causes, and its benefits. Additionally, we'll shed light on some of the popular trends in digital transformation in finance and changing security dynamics.

Industry Overview

Before knowing what drove the change and its benefits, let's understand what digital transformation is in banking and finance.

Finance and banking institutions accelerate digital transformation endeavors, pouring more resources and money into various initiatives such as data analytics, increasing mobile offerings, and artificial intelligence to reach potential and existing customers and elevate the overall digital experience.



Source: eMarketer via World Economic Forum (WEF)

A range of insurtechs, wealthtechs, fintech, and other financial startups have cropped up to provide consumers with a seamless experience and steal a considerable market share from established financial organizations. The pandemic has pushed several customers into trying digital or internet banking, contact-free payment, and a series of other digital means for the first-time-ever due to social distancing, safety, and health precautions. So, if banks want to succeed in this modern landscape, they need to either modernize their legacy systems or partner with tech-savvy competitors.

What Is Propelling This Change?

Put simply, two things pushed the change:

1. Digital interactions adopted due to the pandemic
2. Consumers wanting convenience and avoiding a poor digital experience

Believe it or not, a digital shift has occurred within the financial and banking services sector during the COVID-19 outbreak. This is mainly due to how customers accessed funds and transacted within these sectors due to social distancing and stay-at-home orders; not to mention, most businesses and retail-bank branches were closed.

Additionally, this sudden shift in behavior has shown financial and banking institutions many new opportunities to reach consumers, from providing support via mobile apps, chatbot interactions to leveraging data to understand better consumer needs.

Benefits

Here are a few advantages of adopting digital transformation in the banking sector:

- **Remaining competitive**
- **Creating seamless and convenient operations** preferred by consumers and leading to improved customer retention.
- **Improved customer experience:** As per a report, more than 70% of financial and banking services executives consider customer experience (CX) an integral part of digital transformation. Consumers expect businesses to stay ahead of everything and remain tech-savvy. By going digital, they can easily attract, track, and even engage more customers; while financial and banking institutions can provide personalized and consistent service and products.
- **Enhanced revenue generation and operational efficiency:** By deploying the correct tools, you can streamline various procedures by integrating data and automating different manual tasks. Such kinds of initiatives help reduce cost and save time, resulting in better profits.
- **Easy data management and accessibility:** Digital transformation helps collect, store and manage raw consumer data to increase growth and business intelligence.

- **Operational productivity and process agility:** Automation enhances productivity as well as process agility by removing human-induced errors. In addition, it increases precision and operational efficiencies.
- **Insight-driven decisions:** Artificial Intelligence (AI) based analyses allow quicker trade decisions. Business strategies and decisions can be based on computing insights with more customer-centric services or products

Trends in Digital Transformation in Finance

As technology further advances, it is optimal that the finance industry adapts to the changes to stay ahead and provide the best services and experience to their customers and clients. Let's take a deeper look into the current and emerging trends in the industry.

Banking

Neo-banks are arguably the most common and increasingly popular fintech platforms disrupting a conventional banking system. Wondering what neo-banks are exactly? They refer to new kinds of banks functioning online and have mobile-first designs.

Consumers can open accounts via apps using their smartphones rather than visiting the nearest branch or completing unending paperwork. Such applications feel more convenient, and a majority of them provide a wide variety of finance features such as saving accounts, remittances, easy payments, and access to loans.

For instance, neobank apps such as UK-based Starling or Monzo Bank and Germanys' Number 26 have been expanding drastically all over Europe and even ranked higher (most of the time) than many other banks. As per a Forbes report, banks have invested about $1 trillion in digital or branchless banking globally to stay competitive and relevant. According to another report, visits to physical banks will reduce dramatically by 36% by 2026.

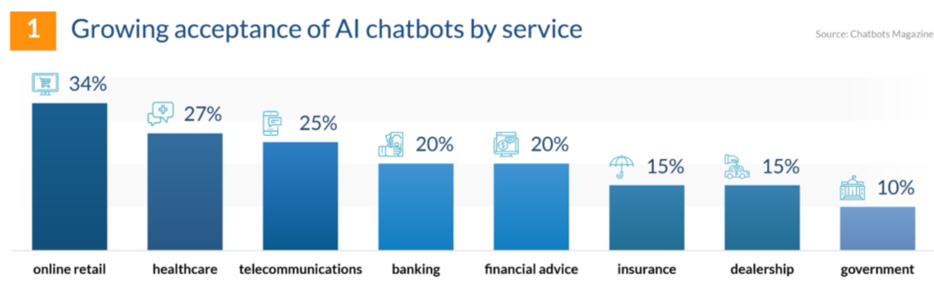
Digital transactions are on the rise and will remain so in the future. As per Global Market Insights, digital banking will expand by more than 5% by 2026. Overall, digital banks are getting immensely popular and for all the right reasons: they offer worldwide payments, contact-free credit cards without any transaction fee, and P2P transfers. It is a viable choice for users who want to watch over their finances without leaving homes.

How AI Is Influencing the Future of Finance

Artificial intelligence (AI) in the financial and banking services sector include applications for forecasting, automation, data management, risk assessment, and many other use-cases.

One significant development is "robo-advisors", a prevailing trend in the fintech industry. Such online platforms could manage investments independently and recommend a customized portfolio suited to personal interests. They utilize major data trends and cognitive computing tech to identify the most viable investment strategy.

Another AI examples in finance and banking include IBM Watson for financial statement analysis or chatbots for basic customer support queries. With AI being used increasingly by these chatbots, they could learn from various customers' conversations and even personalize future interactions.



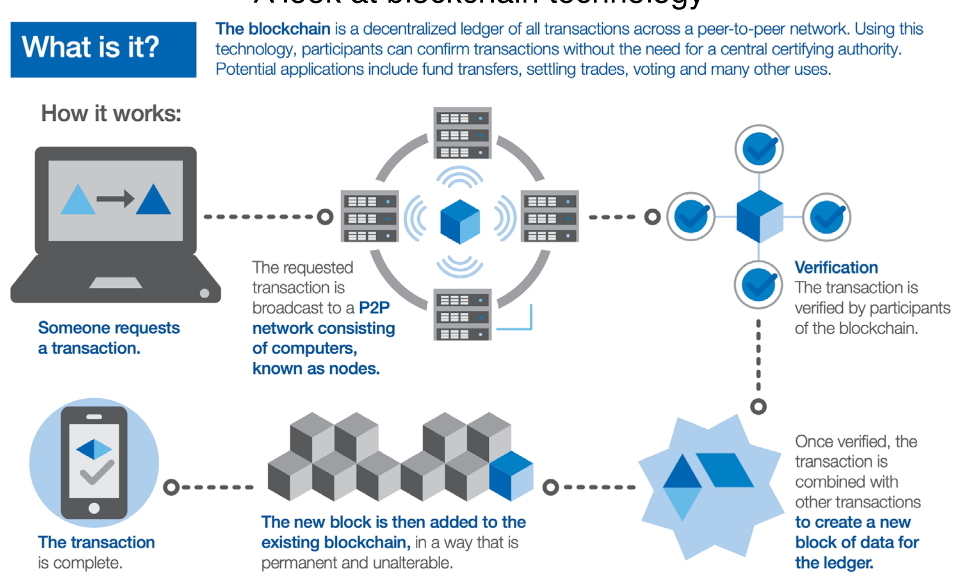
Source: Finances Online

FinTech companies can easily attain this due to machine learning (ML), where chatbots employ real-time inputs such as news and data like purchase history to study and forecast future consumer behaviors. ML is an AI sub-category utilized to learn as well as grow from data to solve complicated problems. Some ML examples in the finance and banking sector include compliance analysis, algorithm trading, and fraud detection.

Blockchain

Blockchain tech is amongst the top innovations in the banking and finance industry, keeping promise to eliminate fraud, guarantee secure and quick trades and transactions, and eventually help handle risk inside the inter-connected worldwide financial system. Blockchain accomplishes it via advanced cryptography, designed specifically to be hack-resistant, adding further trust and confidence to the finance ecosystem.

A look at blockchain technology



Source: World Economics Forum

The tech allows ultra-secure transactions while removing all sorts of intermediaries that drastically minimize costs. According to the World Economic Forum (WEF) report, blockchain tech will store more than 10% of the total worldwide GDP by 2025. the introduction to blockchain disrupted the entire payment sector and will become more apparent in the future.

Unlike other conventional businesses, the finance and banking sector don't have to initiate radical change in their procedures to adopt blockchain technology. Once they applied for cryptos, the financial and banking sector started considering the adoption of blockchain for conventional banking operations.

Nevertheless, blockchain can offer the following advantages for the banking and financial sector:

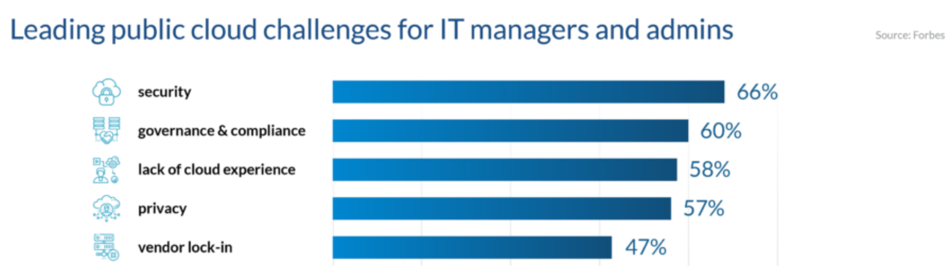
- Fraud reduction
- Smart payments
- Secure and safe payment processing
- Independent customer verification
- Trading process automation

Some popular fintech leveraging blockchain tech include IBM-developed Stellar, Ripple, we.trade, and Robinhood.

Cloud Adoption

Some of the worlds' top banks and financial establishments are striking significant deals with major cloud providers. According to Financial Times, many banks have abandoned their careful approach to cloud services and register with gusto to outsource their storage of data and other activities that demand high-intensity computing power. Nowadays, banks and the finance sector increasingly use the cloud for non-critical and non-core uses like HR, customer analytics, CRM, email, and testing and development purposes.

Compared to big banks, smaller ones have transitioned more smoothly to the cloud by shifting complete services such as retail banking, payments, enterprise data, and treasury. Cloud adoption is one of the many trends that banks need to incorporate to stay ahead in this digital transformation competition. Not only do they have to face conventional banks, but also new competitors with a range of improved technology as well.



Source: Finances Online

Here are some cloud adoption advantages:

- Enhanced data security
- Improved cost optimization
- Better efficiency
- Business continuity
- Transformation and agility

Changes in Security Regulations

The financial and banking services industry protects extensive data, making it an easy and frequent target for cybercriminals. Without proper cybersecurity mechanisms in place, personal identifiable information (PII)" and other banking records that financial establishments house on servers are vulnerable to breaches.

This raises cybersecurity compliance issues for finance firms, as they are subject to reputational loss and mega-fines in the event of a breach.

Due to this reason, cybersecurity compliance within the finance and banking industry is vital. As more and more banks are starting to digitize offerings, having efficient cybersecurity compliance programs will ensure that crucial assets are safeguarded while complying with regulations set by various government entities.

This esures some of the best and safest banking practices are in place. In addition, it helps companies avoid penalties and fines for noncompliance.

In short, increased digitization raises further challenges in the globally–connected world. Regulators assume that the market players will adapt; this means more strain on "Know Your Customer (KYC)" and "Anti-Money Laundering (AML)" policies.

Nevertheless, here are a few cyber-security regulations in the banking and finance sector you should know:

- Payment Card Industry Data Security Standards (PCI DSS)
- Sarbanese-Oxley (SOX) Act
- National Institute of Standards and Technology (NIST)
- ISO/IEC 27001
- European Union's General Data Protection Regulation (EU-GDPR)
- Gramm Leach Bliley Act (GLBA)
- Payment Services Directive 2 (PSD 2)
- Bank Secrecy Act (BSA)
- Financial Industry Regulatory Authority (FINRA)

Key Takeaways

The banking and finance services sector is experiencing a thorough transformation. Digital techs are reshaping lending, insurance, wealth management, and payments – processes that the Coronavirus outbreak has accelerated.

While this makes financial and banking services in several economies more competitive, inclusive, efficient, and diverse, it might also increase market concentration. In addition to that, new security risks may also emerge and threaten the confidential data banks host if they don't adhere to new cyber-security guidelines.

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