Technological Disruption In The Financial Industry – The State Of FinTech In 2020

The financial services sector represents one of the largest industries in the world, contributing more than 20% of the total gross domestic product in the developed world.

As the end of 2019 approaches, we can safely say that the financial industry looks significantly different from what it was five years ago. With innovative payment solutions, AI-led prediction and analytical systems, and emerging market opportunities – technology has majorly revamped the industry.

For a long time, new entrants found it difficult to gain a share in this largely traditionalist market – but this is not the case anymore.

Led by the FinTech revolution, there has been a surge in the number of new competitors today.

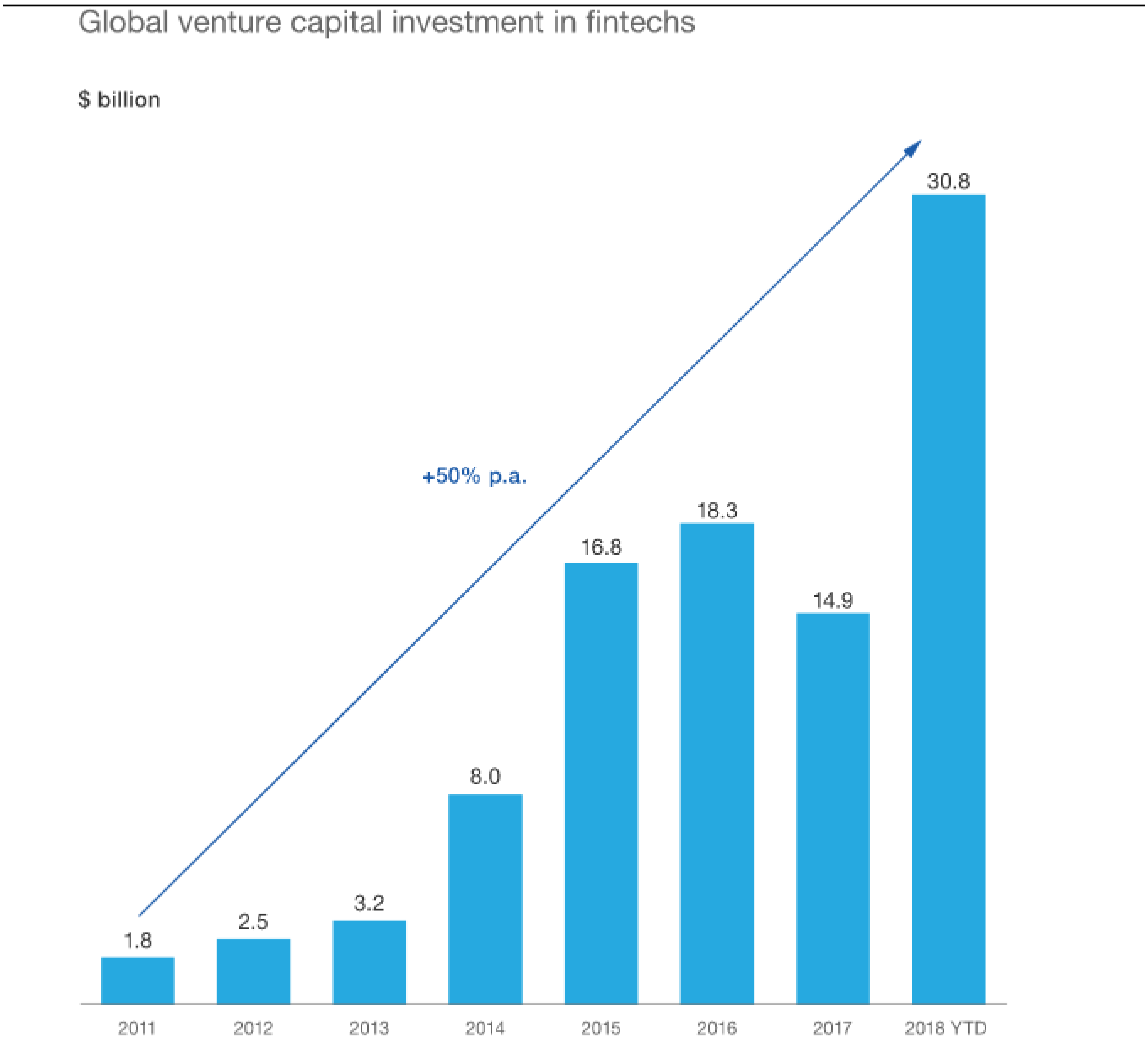
The Growing Potential Of FinTech

FinTech is a combination of the words *finance* and *technology*. In perspective, it indeed represents the joining of two very different worlds.

While the financial sector conventionally survived other notable advancements of the previous century, it had to surrender to the power of the internet and increased networking – whether between people or machines, as is the case with AI.

In fact, FinTech entities have emerged as a force to be reckoned with; long-standing companies have begun to forge a meaningful relationship with emerging FinTech startups – either by investing in them or through partnerships.

According to a McKinsey report, approximately 80% of financial institutions are already a part of these emerging FinTech alliances. This reflects in the venture capital investment numbers as more financial entities than ever pour money in high-potential startups.



[Source: McKinsey]

From a meager $1.8 billion annual investment at the start of the decade, the growing prominence of the FinTech sector has resulted in an increase of more than 1600% - leading to a total of $30.8 billion in 2018. This is a testament to the growing technological disruption that is shaping the future of the sector.

While there are many forces that are simultaneously impacting the industry – including social, demographic and economic factors – they don't quite match up to the level at which technological breakthroughs are affecting the overall sector.

How Technology Will Impact The Financial Industry In 2020

Here are the top four trends that industry experts believe will have the most impact on the financial industry in the near future:

FinTech Will Be Instrumental In Forming A Renewed Business Model

Until the last decade, conventional institutions had a firm hold over the industry at large.

These multi-national banks and service providers – also labeled 'incumbents' – had well-established roots that allowed them to create an atmosphere that was conducive to their growth exclusively.

Their sheer size, coupled with extensive networking, allowed them to ward off any hint of competition. Combined with impressive resources, they could invest in strong compliance departments to handle government regulations while simultaneously deploying predatory tactics to ensure complete control of their market share. In short, this allowed them to tackle economic fluctuations with ease.

However, technological disruptions have had a profound impact on their status as industry giants. FinTech products have helped erase the barriers to entry into the financial realm, allowing a sense of healthy competition to develop.

By providing new and innovative ways of handling payments, managing savings and paying bills, FinTech has revolutionized the paradigm of the industry. The resulting shift in consumer trends has had a profoundly adverse impact on some of the most profitable commercial divisions of these organizations.

According to a PwC report, conventional firms increasingly fear that disruption will take over their core business functions. In the banking sector, experts predict that 28% of their business will be 'at risk' due to disruptive technology. For Insurance, Wealth Management and Asset Management services, experts predict the 'at risk' business percentage to be 22%.

Still, one potential barrier faced by disruptive FinTech entities is that of the regulatory bodies. In an attempt to provide meaningful oversight and promote healthy competition, these bodies may end up creating a barrier to entry in some regions.

But despite this hurdle, the financial sector has embraced tech wholeheartedly – leading to an incredible rise in the level of demand.

And this demand is not only being generated from the mainstream banking sector. Advanced products, such as AI-powered investment platforms, have also led niche services such as wealth management companies to jump on the bandwagon.

The Industry Needs To Adapt To FinTech – Not The Other Way Round

Using digital channels, new and disruptive players have deployed an 'online-only' strategy to enhance their visibility in front of consumers. This is a highly effective approach, as the target population of such advanced services is the millennial generation – symbolized by their high use of the internet and online platforms.

Utilizing a learning approach, traditional institutions are following the lead and provisioning online services to appeal to the dominant demographic for increased exposure. For consumer banks, this disruptive model has allowed them to provide users a highly tailored experience without investing in physical inventory. This allows institutions to cut down on costs while leveraging mass exposure afforded by disruptive channels.

The bottom line remains the same; FinTech entities continue to provide newer avenues for the industry while stakeholders continue to witness the formation of an entirely new business model.

If you are a traditional entity, it is important for you to invest in new infrastructure – one that emphasizes on disruption and streamlined workloads while creating a better, more consumer-centric service.

The Cloud Is Here To Stay

Cloud computing has been yet another tech offering that has revolutionized the enterprise sector. Despite some initial apprehension due to security and regulatory issues, it didn't take long for the industry to realize the vast benefits of the cloud.

In fact, some of the largest industry players readily invest in cultivating cloud computing capabilities.

According to the MarketsandMarkets report, the finance cloud market is predicted to grow at a CAGR of 24.4% per annum. At this rate, the total market will be valued at an impressive $29.47 billion by 2021. This accelerated growth is prompted by the need for exhaustive IT services, as financial players realize the importance of integrating business agility into their models.

Presently, many organizations utilize the SaaS (software as a service) model of the cloud. They use it to deploy applications that help process business data that may or may not directly relate to their core functions.

Popular uses of the SaaS model consist of CRM applications, human resource applications and preliminary financial accounting data processes.

Recent developments, coupled with increased familiarity with how work is done in the cloud, has led organizations to integrate cloud computing as the primary way to process important functions – including predictive analysis, financial computation and more.

This integration has a profound impact on the way human and monetary resources are utilized. With core processes such as credit scoring and financial computation now being managed in the cloud, the verdict is clear – this 'trend' is here to stay.

Cyber Security Remains The Top Threat To FinTech Adoption

Present-day organizations are facing an increased number of attacks directed at their servers and data storage centers led by cybercriminals.

As the enterprise world continues to foray deeper into data analytics and continues to realize the potential benefits of drawing valuable insights, data has become all-important. This trend has not gone unnoticed by entities who want to breach your data for personal gains.

The type of consumer information that resides within financial businesses makes them a lucrative target for such criminals. According to IBM's X-Force Threat Intelligence Index report, the industry experienced the highest number of cyberattacks in 2018 – a 19% share of the entire breaches that took place in the year.

This harrowing statistic means that finance has been the highest attacked industry for three years in a row – from 2016 to 2018. In addition to the inherent attraction that financial data possess for hackers, there are various factors that contribute to the deplorable state of cybersecurity in the industry.

Here's a list of reasons that contribute to the growing cybersecurity concerns:

- Excessive use of potentially insecure third-party vendor applications
- Increased integration of sophisticated technologies that require some formal training before safe use
- Data in transit over various channels, including cross-border
- An increasing BYOD trend that paves the way for unsecured endpoints

Identifying And Eliminating Cybersecurity Concerns

While enterprises have remained proactive about securing central servers by deploying firewall practices and efficiently managing central data repository security, they are still being met with an increasing number of attacks. Why?

The answer lies in evaluating the modern workplace, which is a port for thousands of devices – and all can provide a pathway for hackers to access sensitive platforms. According to Gartner, the number of IoT devices deployed around the globe is expected to reach 25 billion by 2020.

The financial sector has also been taken over by this IoT wave; mobile banking services have emerged as the new norm, where the sector has upped the ante by allowing access through wearable items such as smartwatches and fitness trackers.

Even the insurance industry is deploying an increasing number of devices such as the telematics technology to analyze driving habits. While this allows them to monitor driving history and assign insurance rates accordingly, the increasing number of devices contributes to the increasing security threats faced by the industry at large.

Citing such increased risk, industry stakeholders have taken a proactive stance with their security measures. For instance, businesses are increasing their cybersecurity budgets with a Bitdefender white paper predicting that this will increase by another 6% by the end of 2019.

There is a growing need to use big data analytics to identify cyberattack trends and patterns; this will help security offerings to evolve in order to effectively combat advanced threats.

As cybersecurity grows into an important consideration in the financial sector, the real risk lies in balancing a secure offering with one that provides exemplary consumer experience.

You Are Not Alone – Regulators To, Are Adopting Technology

Within the financial sector, there are multiple regulatory departments that are tasked with keeping banks and other services in line. But as financial institutions scale and continue to integrate complex technology within their core processes, regulations must also evolve accordingly.

This acknowledgment has prompted regulators to adopt an array of data analytics tools in an attempt to identify patterns, predict trends and iron out potential problems before they become a global problem.

One example of such technology is eRegulations, an online tool developed by the United States' Consumer Financial Protection Bureau (CFPB) to assist users in finding, researching and understanding regulations.

The National Exam Analytics Tool (NEAT) is another example; this tool is designed by the SEC's Office of Compliance Inspections and Examinations (OCIE) to comb through data and identify fraudulent behavior – such as insider trading, inaccurate asset allocation, etc.

These tools symbolize the intent of regulatory bodies to continue pursuing greater knowledge of FinTech so as to understand the modern financial industry better. As entities continue to automate regulatory processes, such as monitoring in KYC/AML, regulators may also seek access to the controls that bind such processes.

This means that simply integrating FinTech in your business is not enough. You need to develop a cohesive understanding of your entire IT environment and how technology is affecting your bottom line.

Additionally, this also levies an increased responsibility to ensure transparency as far as data and controls are concerned. Focusing on the current regulatory environment will prove to be shortsighted as the entire landscape is in the midst of change.

The Banking Industry Is Set For More Disruption

Amongst various financial services, the banking sector is understandably predicted to experience the full impact of technological disruptions.

The very minimalism that lies beneath core banking products, such as savings and lending, is the focal cause of why this sector is ripe for disruption. In fact, a PwC survey of executives revealed that out of all financial services in the world, 73% predict that banks will be most affected by FinTech.

The very nature of FinTech is symbolized by how it has negated the need to visit a bank. Mobile banking has allowed us to complete transactions, pay bills, process savings and more from our smartphones. One moment you are browsing through your social media account, the other moment you have paid your pending bills – it really has become that easy.

Another significant banking shift has been in the perception of consumer satisfaction. Traditional banks have always been centered around their products – as such, the entire system revolves around a product-centric approach.

In stark contrast, FinTech startups are championing a consumer-centric approach – and the statistics clearly demonstrate their success.

Consumers have long demanded an escape from lengthy bank queues. In a survey co-conducted by Singularity University and PwC, almost half of all consumers confirmed that they use digital channels exclusively for their personal banking needs.

As FinTech continues to leverage unorthodox channels (social media platforms, applications and websites) to facilitate consumers, there has been a drastic improvement in online banking services. This has negated the need to visit local branches that once were the central point of all personal transactions.

In fact, 62% of consumers reported that the frequency of visit to their local branches has dropped from 'a few times a month' to 'a few times a year.'

FinTech will also bring about a major change in how resources are deployed in consumer banking. The shake-up will start from human resources, with banks needing more IT specialists in their teams and less of other employees.

The slow rate of change across conventional channels makes the environment perfect for FinTech disruptors to take a considerable part of the market share.

For incumbents, partnering with resourceful IT experts and streamlining their workloads is not just another efficiency goal. Rather, it constitutes a vital business move when faced with such dynamic competition.

The Course Of Action – Outlining The Priorities For The Financial Sector

The pace of technological advancements in the financial services industry shows no signs of slowing down. Hence, not only is it important for businesses to integrate leading solutions, but the way you choose to do so will also play an important role.

What worked for the client-server era will not work when you are dealing with leading cloud-based solutions. While responding to consumer demands and integrating leading solutions has always been a good practice, it was not considered strictly imperative to the sustainability and future viability of your enterprise.

How do incumbents and new startups leverage FinTech to preserve and increase market share? Here, we've outlined six key priorities:

Invest In Your IT Model

If you think your IT operating model looks good for 2020, wait till we get to 2025. As technology changes the very core of how the financial industry works, it will require organization-wide changes – from your human resources to the entire IT stack.

There is more to investing in your IT model than meets the eye. This decision is far more complex than deciding on what hardware and software to buy for your company. For instance, a couple of considerations include deciding upon the network through which different servers will communicate and whether you should opt for CDN or not.

In 2020, IT is expected to understand the issues that surround your business and help the organization achieve its defined goals and objectives. For this, organizations must ensure good governance in everything – from ensuring proper architectural assets to defining processes in a coherent, comprehensive way.

Ensure A Cost-Effective Strategy To Invest In FinTech

Organizations operating in the finance industry face an ever-increasing cost which means that they are left with less capital to invest in advanced IT solutions.

One of the most dominant reasons that incumbents fail to control their cost structure is their reluctance to challenge legacy systems and innovate.

Present core systems in the finance industry are not only expensive to build, but also prove to be a headache when it comes to modifications and new upgrades. Coupled with the fact that such organizations host a large number of systems, the speed at which functionality and changes are delivered is greatly hampered.

The truth is that the future for such systems looks bleak – and so, organizations must invest in developing new capabilities that can ultimately replace them.

Adopt A Consumer-Centric Approach To Business

One of the most notable trends taking over the industry is to draw upon insights from consumer data and integrate this intelligence into core business functions.

From extracting data from consumer smartphones, laptops, etc. and having the capability to tie it to processes such as risk profiling or transactional history, is what will distinguish successful organizations from the rest.

Another important aspect of adopting a consumer-centric approach is to protect their privacy at all costs.

With endpoint protection and data encryption readily available throughout various platforms, financial service companies need to deliver exceptional security to develop meaningful relationships with their consumer base.

Prepare A Comprehensive IT Structure

As data continues to headline every effort you undertake in this digitalized era, you need to create a meticulously crafted IT architecture. This should not only account for your current goals and objectives, but should also factor in future capabilities and organizational needs as well.

With data coming in from various sources, in-premise storage and processing can prove to be a tedious exercise. This is why the core of your IT architecture should be the cloud.

Allowing your team to develop and test solutions without having to build platforms from the ground up provides you the ability to deliver products more quickly – thereby streamlining the entire process.

Additionally, the architecture remains incomplete without factoring in the security, the policies that bind the entire organization and other company-specific variables that are important for customizing your IT services.

Create A Foolproof Cybersecurity Strategy

Consider this: Around 69% of CEOs in the financial industry say that they are ‘somewhat’ or ‘extremely concerned’ about cyber threats compared to 61% from other businesses.

While the financial industry is not new to risks aimed at sensitive data, it is seriously lacking the defense to withstand these attacks. After all, legacy security offerings still revolve exclusively around safeguarding organizational systems.

While IoT has brought about an unparalleled level of feasibility, at the same time it has opened up thousands of endpoints that can lead to a security breach. Organizations must invest in creating a security layer that accounts for this so as to avoid invaluable losses.

Additionally, the risk of cyberattacks is an ongoing phenomenon; as such, financial companies need to invest in ongoing IT security and governance to continuously check for discrepancies.

With the right tools in place, organizations can identify and react quickly, lessening the blow of any data breach that occurs.

Have Access To The Right Talent And Skill

The most important challenge faced by financial institutions is that they do not have access to people who have sound IT knowledge and the expertise required to take the organization closer to its goals.

For instance, a COBOL programmer tasked with the maintenance of a core banking platform is unlikely to know how to code AI applications. But given the importance of AI in the modern-day business environment, it is clear that the financial industry is facing an acute shortage of people with the right skillset.

This might require you to recruit experts from other technological organizations and think-tanks, and engage with third party resources to leverage their skillset. This is crucial to building a culture of innovative thinking and developing an organization that leverages IT products to their full potential.

Partnering with experts is of significant importance as they are easily able to find IT deficiencies and adapt offerings to your business model. This allows you to integrate advanced solutions more easily and streamline your path to organizational growth.

EndNote

Financial institutions are in the midst of a structural change that is led by the rise in popularity of disruptive FinTech startups.

As such, they are faced with stiff competition from emerging competitors, shifting demographics and the changing regulatory environment. In the face of such challenges, technology allows them to scale their functionality – offering them cost savings, increased efficiency and improved product delivery.

With competitors readily investing in building their IT computability, the current atmosphere is a classic scenario of hit and miss. Incumbents need to react faster than their rivals in order to avoid being too late or risk losing the competitive advantage that they can currently build on.

About The Company

As one of the leading IT providers for the financial services industry, CRA specializes in delivering tailored solutions for industry players.

Led by our three decades' worth of experience, we strive to deliver exceptional workplace technology solutions that help financial entities streamline their overall processes – as well as cut down operating overheads and focus on their organizational goals and objectives.

As the go-to managed service provider (MSP) for hundreds of clients – ranging from multinational banks to wealth managers – we utilize our industry knowledge to carve out the best solutions so they can focus on what they do best.

Interested in learning more? Contact us now.