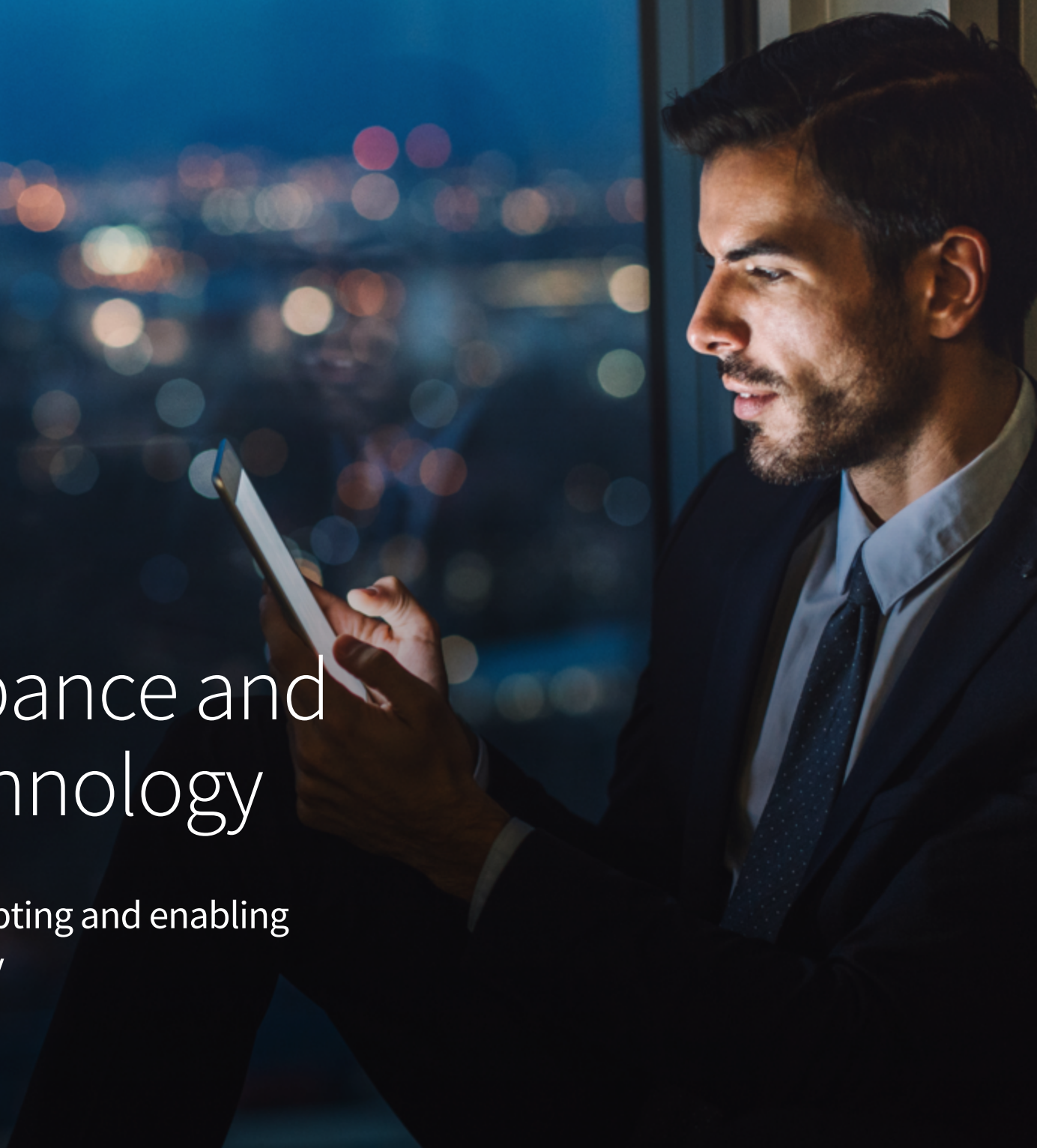




FINANCIAL SERVICES

Digital disturbance and emerging technology

How new technology is disrupting and enabling the financial services industry



The financial services industry must evolve

Digital technologies and new innovative business approaches are confronting outdated methods of operation in the financial services industry. Along with clear disruption and challenges, these developments are also creating countless opportunities for proactive organizations to embrace and leverage new technology tools to improve efficiencies, competitiveness, and relevance. This document reviews evolving technology and the critical challenges and big opportunities being created in the financial services industry.

1. Fintech

Huge disruption creates big opportunities

Fintech (or “financial technology”) describes new hardware and software on which institutions rely for better automation and service delivery. This definition has expanded to include numerous innovative developments and new entrants disrupting the industry with modern business models and tech solutions.

Fintech firms offer additional options in a more efficient way, along with better, faster services. While PayPal® was an early disruptor, the market has evolved enormously in a short span of time. The financial services space has been infiltrated with the likes of **Kabbage™**, **Venmo™**, **Credit Karma®**, **TransferWise**, **Acorns**, **Robinhood™**, and other Fintech firms. While these companies were initially seen as a competitive threat, more traditional institutions are now collaborating—or plan to partner—with Fintechs to help advance and fast-track technological and data-use capabilities. Fintech is being built into strategic operating models. These partnerships have become necessary to improve efficiencies, lower costs, and increase relevancy, while meeting new customer expectations.

Customers typically care less about the complexity of integrations across provider partnerships or channels; they care more about the convenience, service, and speed they receive. The technology platform of choice will be instrumental in helping organizations create a great customer experience that is consistent over time and across channels. Customers expect technology that knows and serves them—and Fintechs are already helping. Digital technology is a key to new, elevated customer engagement.

The **Digital Marketing Institute** characterizes Fintech and the market in this way: “These technologies are moving the financial services industry in new directions quickly. Banks, lenders, credit card companies, and financial planners alike are all hurrying to catch up. One thing is for certain. Fintech is here to stay, growing rapidly, branching in numerous directions, and not slowing down.”

\$137.5B

Global investments
in Fintech in 2019

48%

Organizations that have **fully
embedded Fintech** into their
strategic operating model

2. Cloud

Adoption accelerates as opportunities remain

To succeed, financial services institutions must differentiate themselves from their competitors and drive greater efficiencies through digital transformation. In response, new technologies like cloud have been **reshaping the industry landscape** and demonstrating their power. As cloud providers continue to validate their ability to meet modern needs and further alleviate security concerns, leading financial services organizations have quickly and eagerly **embraced cloud technology** as an agent of change.

Beyond security and compliance, financial organizations are leveraging the cloud to transform their existing businesses and bring innovative new solutions to market. The options include externally hosted multi-tenant or single-tenant, internal cloud single-tenant, connected cloud, or even hybrid cloud. By migrating core platforms to the cloud, financial services organizations are improving customer experience and service, launching new market-facing applications, and finding new ways to automate and operationalize manual back-office processes.

With cloud on their side, businesses can stop putting effort into running applications and datastores, and instead focus on creating deeper, more engaged customer relationships to build a differentiated advantage.

Much has changed since the hype around cloud first surfaced. Today, cloud is viewed by financial services industry leaders as a necessary enabler of digital transformation and innovation. Where once there was worry about data security in the cloud, financial services organizations are now adopting cloud technology to remain competitive and efficient. There is still opportunity—even for those leading the charge. **Accenture** says, “The majority of banking firms have begun to explore cloud’s potential as a business asset, but they are not yet taking full advantage of cloud’s ability to support a financial firm in an evolving digital marketplace.” The cloud conversation has shifted away from understanding the benefits of migration alone and now centers around value, effective operations, and what you are able to accomplish with your data once it is hosted in the cloud.

\$488B

The **market** for public cloud platforms, business services, and applications by 2026

46%

Bankers that see **legacy systems as a hindrance** to growth

3. AI and machine learning

Intelligent advances drive more acceptance

Artificial intelligence (AI) performs tasks that mimic human intelligence with limited human intervention.

Machine learning (ML) is a subset of AI that refers to algorithms created to handle large amounts of data, and is capable of altering and refining itself. More and more financial services, banking, and insurance institutions are leveraging AI and ML technology.

In fact, **95% of executives** surveyed by Forbes believe that AI will play an important role in their responsibilities in the near future. The reality that artificial intelligence is here today demands that CFOs learn more about AI, how it can benefit them, and how best to harness it.

Potential benefits are also driving AI. For example, enterprise resource planning (ERP) systems with AI technology could track and report on exceptions in real time, learn from those exceptions, and then make recommendations to resolve similar issues in the future. This would help eliminate production delays and possible shutdowns. AI also has the potential to help businesses adopt new approaches to optimizing their supply chain, sales, and manufacturing processes, as well as identifying new opportunities and paths to growth. It all depends on implementing the technology in the right way, with the goals of the business in mind.

By automating frequently performed and routine processes, AI can help financial services providers, banks, and insurers spend time on higher priority initiatives. The industry is seeing examples of AI used in areas like document management where forms are processed and chatbots can respond in customer service capacities. Additionally, AI technology is contributing to more personalized services and fraud prevention based on historical customer data, and even helping with policies in insurance and underwriting across industry sub-sectors by driving more informed decisions and problem solving. Two final examples include efficiently managing regulations and robo-advisors offering investment advice.

\$9B

Invested in AI by
various financial service
sub-sectors in 2018

85%

Financial services leaders
that report using some form of AI

4. Robotic process automation

New technology emerges to capture data

While AI mimics human intelligence, **robotic process automation (RPA)** mimics human actions. RPA is focused on automation of manual processes and repetitive tasks, yielding more efficiency with fewer mistakes and more time for strategic focus. Initially created for rule-based actions, the potential of RPA has expanded to include decision-making and other innovative functionality thanks to the continuing evolution of ML and AI.

The tech revolution has created enormous amounts of data. While financial services organizations have long esteemed data-based decisions, now there are more customer data points than ever, and a need to process all the information. RPA is already helping the back office manage the increasing amounts of data. The industry has seen significant cost reduction, efficiency improvements, and other positive results..

In a report on emerging technology in the financial services industry, **Deloitte** addresses the RPA movement:

“Robotics encompasses a broad spectrum of technology ranging from physical devices such as the customer service robots that some banks are experimenting with in retail settings, to software robots that take the controls of business applications as a part of the growing field of RPA. RPA is a powerful tool that automates repetitive tasks and frees staff to focus on higher-value activities. For example, many insurers are using RPA to gather and compare data and reduce the cost of processing claims, with one respondent reporting that such efforts have produced savings of \$30 million to \$40 million.”

The **potential benefits of RPA** in the financial services industry are numerous and its usage is expected to expand. RPA can help address data, improve regulatory compliance, build customer loyalty through better services, and sharpen efficiencies. More specifically, RPA can also support automated screen navigation and execution, user-automated tasks, notifications and approvals pushed to end-users, and events or APIs for full automation executed in the background.

\$2.2B

Growth of the **RPA global market**
in the last four years

79%

Financial services execs that are
considering adopting robotics,
or have already initiated
proof-of-concept programs

5. Digital banking

Disruption takes hold

A long, long time ago, banks gave away toasters to get people in the door. Fast forward several decades. Now the idea of a bank not having a mobile app to interact with their financial information, or at least online access to pay bills, for customers is ludicrous. Fintech innovation has made a clear, competitive impact in the post-crisis economy. There is more pressure than ever to offer digitally savvy customers innovative experiences, products, and services accessible from their mobile devices. Examples of digital-only banks, with few or no physical locations, making an impact on the marketplace are [Ally Bank™](#), [HelloBank!™](#), and [SimpleBank](#).

Evolving customer expectations, along with technological advancements, have changed the banking landscape. With more people looking to mobile applications to interact with loan payments and applications, deposits, and similar activities, branches are suffering. Why go to a physical branch when you can make payments and deal with your financials with the push of a button?

Traditional financial institutions have been thrust into a turf war with new entrants that are technology-focused. With technology removing barriers to entry, the disruptors are offering improved services and experiences, and convenient anytime, anywhere access. Innovative technology also makes companies more efficient by reducing their costs.

Some financial services institutions are collaborating to keep up and expand digital capabilities, while others have even venturing into the new arena themselves. Finn by ChaseSM is one example of a traditional provider entering the digital banking race, though it is an early effort. The shift toward mobile banking cannot be denied or ignored. Banks must continue to look for innovative ways to deliver experiences and remain relevant and profitable.

80%

US consumers that would **rather bank digitally** versus visit a brick-and-mortar location

88%

Consumer-bank **mobile interactions** expected to happen via smartphone by 2022

6. Data security and risks

Vigilance becomes a requirement

Today, more people can access information than ever before. Technology has greatly improved access to financial services, making vast amounts of information that was previously only accessible by a few available to the masses. There has long been consideration for the privacy of financial information. Now, along with the positive contributions of technology, institutions must also consider new cybersecurity threats and data protection.

Consumer confidence remains a cornerstone of the industry. Customers care about how you use and protect their data. In fact, a clear majority of customers express **elevated concern around data privacy**. Add to that the fact that threats are expanding in sophistication and volume and you have complex challenges to address. There are also regulations to consider. The U.S. Securities and Exchange Commission (SEC) has issued **guidance** promoting the proactive disclosure of cybersecurity risks, even before an attack takes place.

“As the threat, frequency and impact of these attacks increase, new legal risks emerge, including litigation and steep regulatory fines. In fact, according to a Forbes Insights/K&L Gates survey, the trends that present the most potential for legal risks include dealing with data (69%), cybersecurity (47%), a changing regulatory environment (46%), fraud protection (39%) and digital transformation (39%),” **Forbes** said.

Cybersecurity incidents are inevitable, so organizations must plan for them. Yet, as access to information and data continues to increase, it has also increased the complexity of cybersecurity and the ability to prevent unwanted and unwarranted access to financial networks. To protect reputation, maintain customer trust, and remain compliant, financial services institutions must aggressively address data security and related risks with new consideration for more reliable processes and technology.

480%

Increase in data breaches reports
by financial services firms in 2018

71%

Breaches that are
financially motivated

7. Customer intelligence

The customer base expects more

New business pressures have converged, turning some of yesterday's standard practices into new sources of disruption—and even risk for the financial services industry. All considered, no issue is more significant or critical to organizational success than the rising expectations that come from more digitally savvy clients with powerful tools and endless options available, literally, at their fingertips.

According to **KPMG**: “In a world where customer perceptions are being shaped by disruptive technologies from various sectors and businesses, financial services organisations are facing vast new demands from customers. Customers are now accustomed to tailored products, services, and exceptional delivery, and expect the same from their financial services providers at every touchpoint.”

Customers now expect a simplified, consistent experience across channels with instant access, quick responses, and personalized service—anywhere, all the time. While there is more data than ever being generated, institutions have to find efficient ways of applying customer information and demonstrate a strong understanding of customers to attract and keep them. **Customers care** about the technology being used by their provider.

To thrive, the financial services industry must continue to evolve and become more customer-centric. Demonstrating organizational value, differentiation, and understanding of the entire customer experience is more important than ever. But with so much change, how does that actually happen beyond a few siloed efforts? Acknowledging customers is a must, but so is enabling the enterprise to respond appropriately to the new landscape. To succeed, organizations need updated processes and modern strategies along with intelligent technology to improve operational efficiencies, sustain continued growth, and, yes, meet and exceed customer expectations.

70%

Of customers report that **to win their business**, firms must understand how they use products or services

85%

Professionals that agree faster **response to customers** is an urgent need

Embrace innovative technology to succeed

Technology has created new challenges for businesses today—and the financial services industry is no exception. Along with the growing pains retail and commercial banking, insurance, capital markets, credit services, and investment management companies are experiencing, there is also ample opportunity. So much of the technological advances unfolding today revolve around data and the ability to leverage that information. However, technology alone is not a cure-all answer for organizational problems. Business agility, operational efficiencies, and strong processes and strategies are all important. What will you do as these emerging technologies and financial services converge? How will you stay relevant, drive growth, make customers happy, become more efficient, minimize risks, and empower your workforce to serve informed customers?

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