

## The Future of Financial Services

With so much off-the-radar political change in 2016, forecasting the future has taken on a new dimension. This provided an added point of discussion at a very stimulating 2016 Financial Services Forum Annual Members Conference.

Much focus was on the value of and access to data; and around how to monetise data securely (and ultimately profitably) in innovative new products.

The rise of FinTech was never far from centre-stage, although a drive to commoditise/ automate the sector through operational and cost efficiencies does not always fit well with the emotions that people feel towards many aspects of financial services and the need for human reassurance/ advice.

Two worlds have come together – the physical and digital – affecting all industry sectors, but with great opportunity for the financial services industry to be at the forefront of financing many of the life-changing digitally-based innovations in areas such as health, transport and the environment.

Funding will increasingly be provided by private equity, venture capital, peer-to-peer platforms and crowdsourcing reducing the role of bank lending, although specialised SME bank lenders are emerging.

Artificial Intelligence (AI) is already beginning to play a growing role across many sectors through algorithmic patterns predicting and acting on behaviour (e.g. trading in financial markets). The move to AI will be a feature of industry innovation in the coming years.

For banks the future is clouded by regulatory control, security and technological change issues. Banks also need to respond to customers' needs while controlling risk and costs. 'Compliance first and innovate second' is the new mantra.

New FinTech competitors will continue to prise away money transmission business as cash becomes less important. Wealth managers face challenges from the new breed of robo-advisers who are well-placed to win business from the many millions of non-professionally advised people. The role of Blockchain is expected to play a growing role in secure account operating efficiencies and help prevent fraud.

While the major banks would seem to be in prime position to be gatekeepers of data, and provide valuable personal services through pro-actively using such data, major concerns over the risk of data breaches looks set to stymie such innovation. Rather, the approach of new bank Monzo, providing a data-driven, customer-first offering, or the tech giants with their banks of personal data (Facebook, Apple, Google?), or indeed data-rich insurance companies developing new data-based Insuretech offerings, may emerge to be the data gatekeepers.

Customer engagement is crucial in the future, especially in insurance where people only really engage when a claim is made. Rather than claim on policies, insurance companies may use data to help consumers reduce claims- in health through using monitoring devices to track fitness and wellbeing; in the home through providing managed services to mitigate fire, flood and burglary risk;

and in motor through increasing use of telematics with motor manufacturers in a completely managed service for the vehicle.

The battle between disaggregation and re-aggregation in financial services is being won by the rise in platforms, a trend set to continue. Financial services providers will need to ensure that service levels are consistent across delivery channels. The much-maligned bank branch will have a role to play through value added services, with growth in mobile banking and apps, with the smartphone 'the centre of an individual's universe'.

Across financial services the search is on for talent, especially in data analytics, data management, market / competitor intelligence, customer service and training. Leadership will be about understanding all aspects of the business model and being able to decide across competing divisional investment demands.

Much focus is on innovation and creating money making opportunities. While the financial services sector is a vital export contributor and a world-leader, the waves of regulation have taken a toll on productivity that is a weakness of the financial services sector. Ever-increasing regulation weighs down on the UK more generally.

Big banks and insurance companies dominate financial services and will continue to do so but will be constrained by inertia and the desire of authorities, especially in banking, to increase competition. This greater involvement of government agencies may have unintended consequences with growing numbers (too many?) of new banks looking for customers and many products promoted by government policy-makers, often based on the nudge theory of behaviour.

In the savings arena product confusion is rife, particularly the family of ISAs and their relationship to pension planning among the under 40s, where auto-enrolment has resulted in millions of people building up pension savings, but where comparison between long-term savings products is difficult. How should young people prioritise their future finances when faced with student debt repayment, property purchase aspirations and pension saving?

Building financial confidence will help boost demand in the coming years but this can only be achieved if there are well designed products and processes. In the future gamification may help to tap into the same thinking needed among gamers to determine the best approach to complex decision-making.

Boosting financial wellbeing is the ultimate objective; to equate the goals of financial services providers and customers, with the penetration of short-term / rainy day savings to cover unforeseen circumstances across the population the suggested measure of personal financial wellbeing, a key metric in retail financial services in the coming years.

John Gilbert, November 2016

[j.gilbert@jgfr.co.uk](mailto:j.gilbert@jgfr.co.uk)

Speakers: **Robin Taiwar**, FastFutures, **Renee Friedman**, The Economist Group, **Tom Blomfield**, Monzo Bank, **Michael Mainelle**, Z/Yen Group, **Oliver McGuinness**, Opun, **Pete Connell**, Wealth Wizards, **Dr Greg Davies**, Centapse