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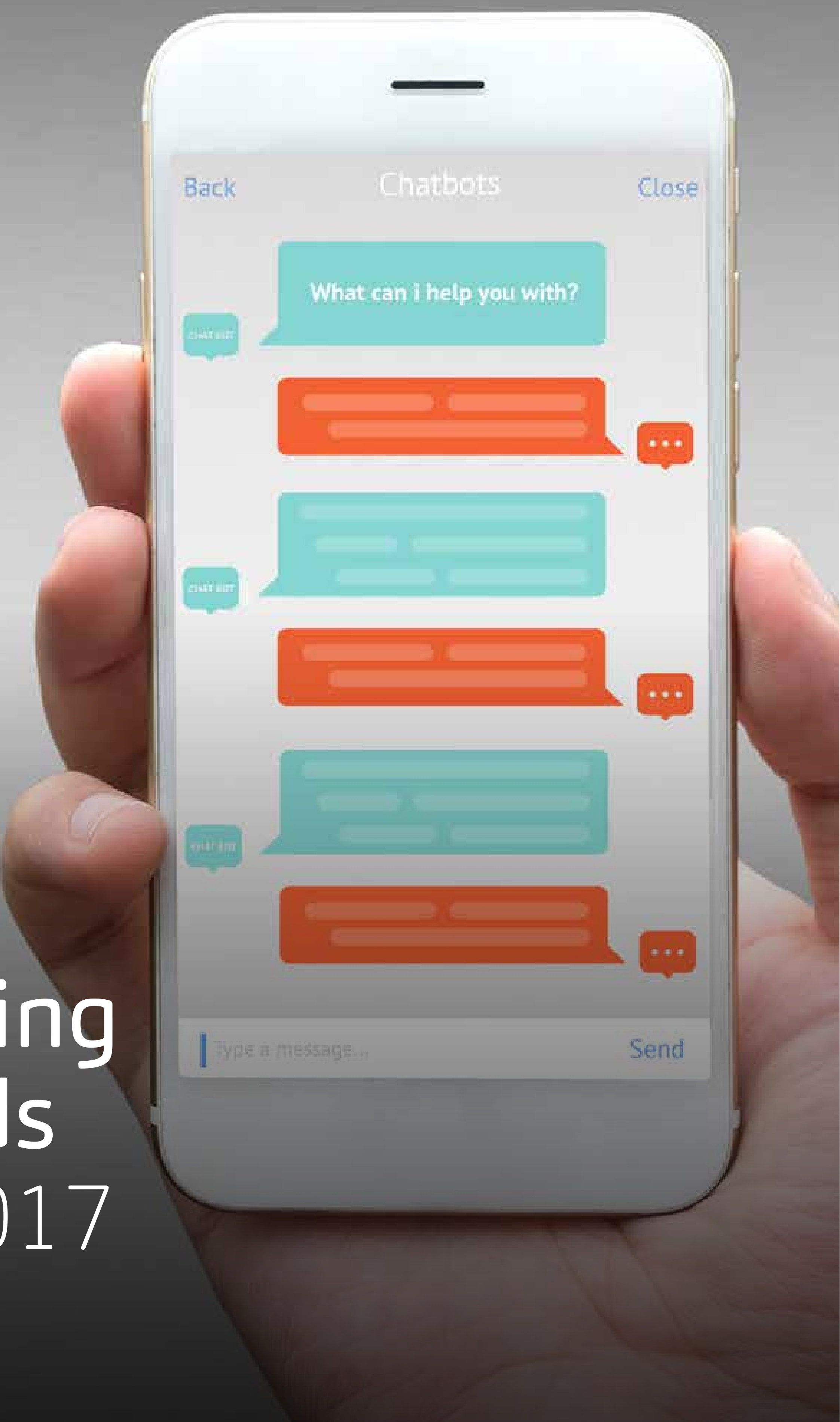
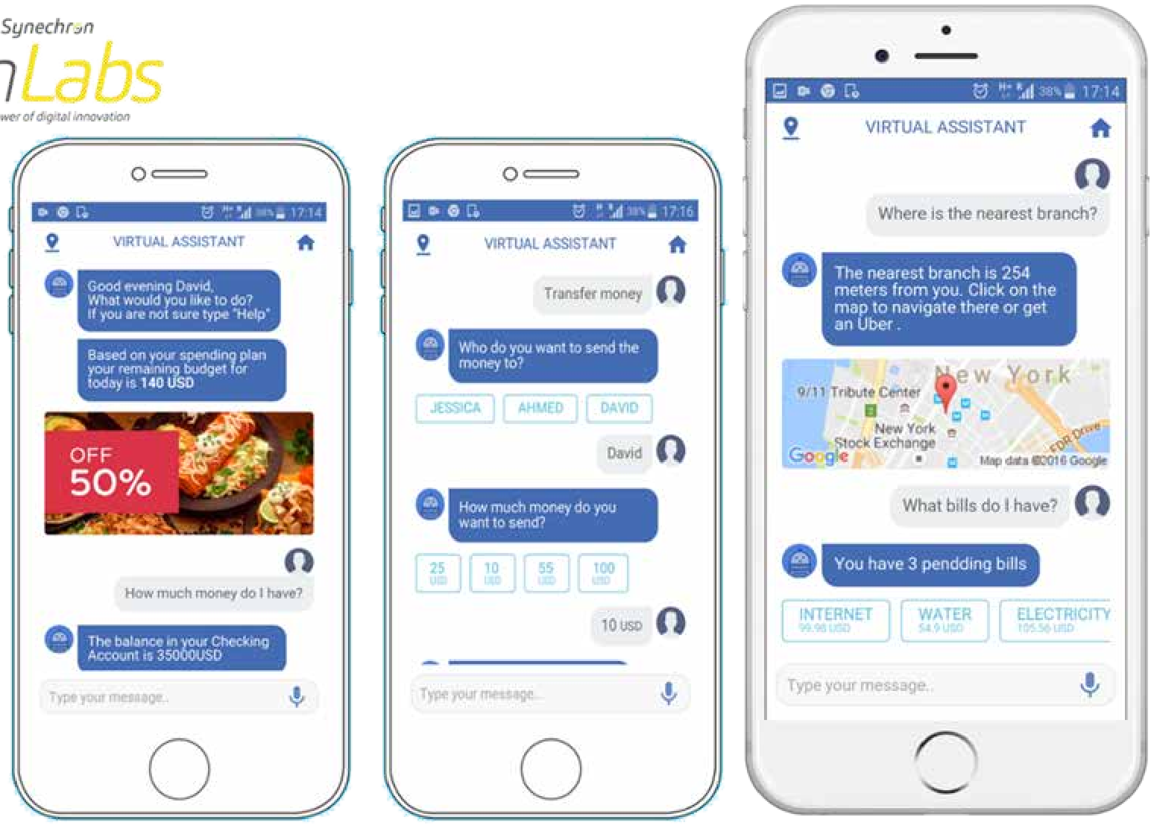


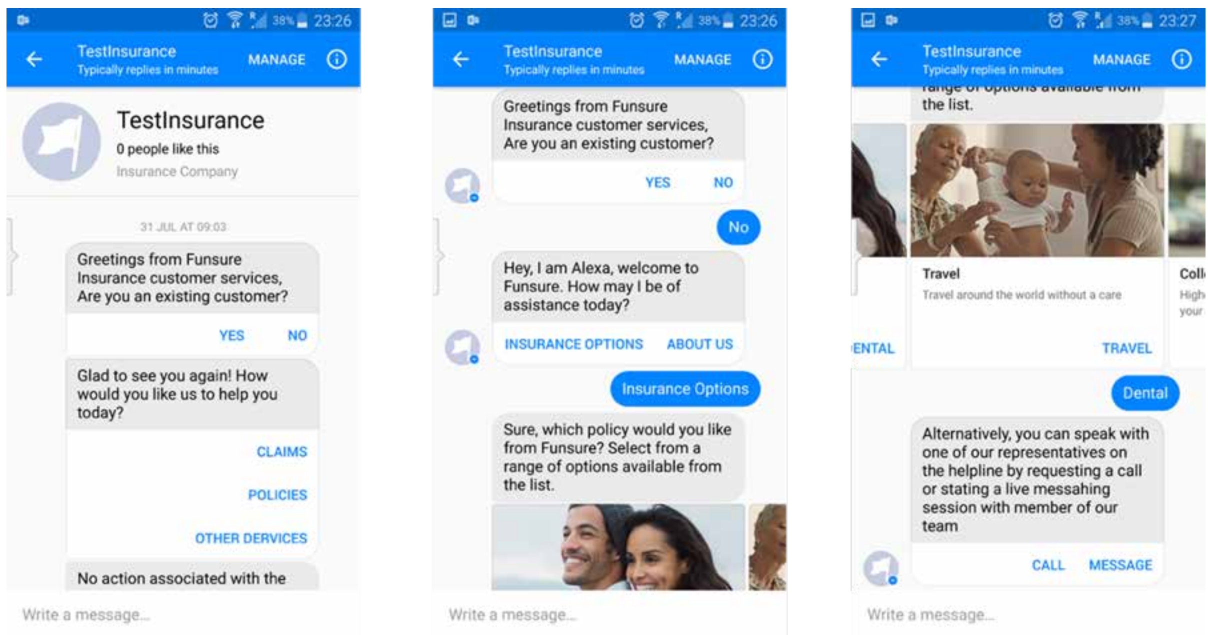
The Top 5 **Banking Trends** for 2017

Without a doubt, 2016 was the year 'disruption' became tangible. Events like Brexit, the U.S. election and India's demonetization exercise brought home the reality we are living in a fast-changing global society where a sense of anti-establishment and rebellion is accelerating change.

This shows no sign of stopping in 2017, with new technologies allowing banks to offer service levels more synonymous with hospitality than financial services, and with established technologies like artificial intelligence and robotic process automation seeing a resurgence in combination with new voice commerce models, IoT data, and robo advisors to offer more personal, more contextual and ultimately unique banking experiences for each and every one of us. In meeting with decision-making executives from the U.S to Europe, the Middle East, India and Singapore, I have compiled a clear list of trends that are dominating technology investment discussions across the globe's leading banks.

Synechron FinLabs
The power of digital innovation





The Year of the Chatbot - Eliza is all grown up

2017 will be the year of the 'BOT', and undoubtedly several banks will take their first steps towards "conversational commerce," a term originally coined by Chris Messina of Uber to describe the future of messaging within apps. In 2016 we already saw several leaders' like DBS, Santander, Wells Fargo and Bank of America roll out their chatbots, but 2017 is the year when the rebirth of this very old technology will come into its own.

Let's be clear…Chatbots are not new, and in the 1950s computer scientists Alan Turing and Joseph Weizenbaum imagined the concept of computers communicating like humans do - developing the 'Turing Test' and subsequently inventing the first chatbot program, Eliza. The Turing Test was developed by Alan Turing to test a computer's ability to replicate intelligent behavior considered to be equivalent or indistinguishable from that of a human. It is no surprise then, that for the financial industry that chatbots are top of mind when looking to reinvent the customer experience whilst also cutting down on costs in job roles ripe for automation. In recent months, the White House has stated that at least 83% of jobs paying under $20 per hour, and 35% of jobs paying between $20 and $40 per hour, are at threat of being taken over by AI technologies like chatbots.

So for those who have been stranded on an island, then you might be asking what exactly is a chatbot? Chatbots are essentially software programs pretending to be people that you can interact with through text or voice. You can talk to these chatbots in your messaging apps, websites or voice enabled devices like Amazon Echo and Google Home, much like you would any other contact in your list, to get the day's investment briefing, find out your account balance or just pay your phone bill.

In the context of conversational commerce, chatbots are becoming the bridge between consumers and businesses and appear to be a good answer for financial institutions to manage millions of one-to-one conversations with their customers. Banks and insurers should look at chatbots as the opportunity to combine intimacy and automation to help them deliver a more personal customer experience.

"Chatbots and Natural Language Generation with advanced Artificial Intelligence are bringing back the B2C dialogue where it's been missing most: online"

Now before we get carried away and envisage cyborgs eradicating all the bankers in branches and in call centers, it is safe to say that chatbots haven't evolved to the point where they can completely pass for a real person (yet!), but messaging apps have evolved to drastically improve a part of the business that never quite carried over from brick-and-mortar to mobile/online: sales and customer support. It is only possible now because the technology as a whole has experienced explosive growth and mass consumer adoption, catalyzed by Apple, Google and Amazon. Compared with banking services offered through most social apps, chatbots offer users a more engaged and private communication channel than any social network.

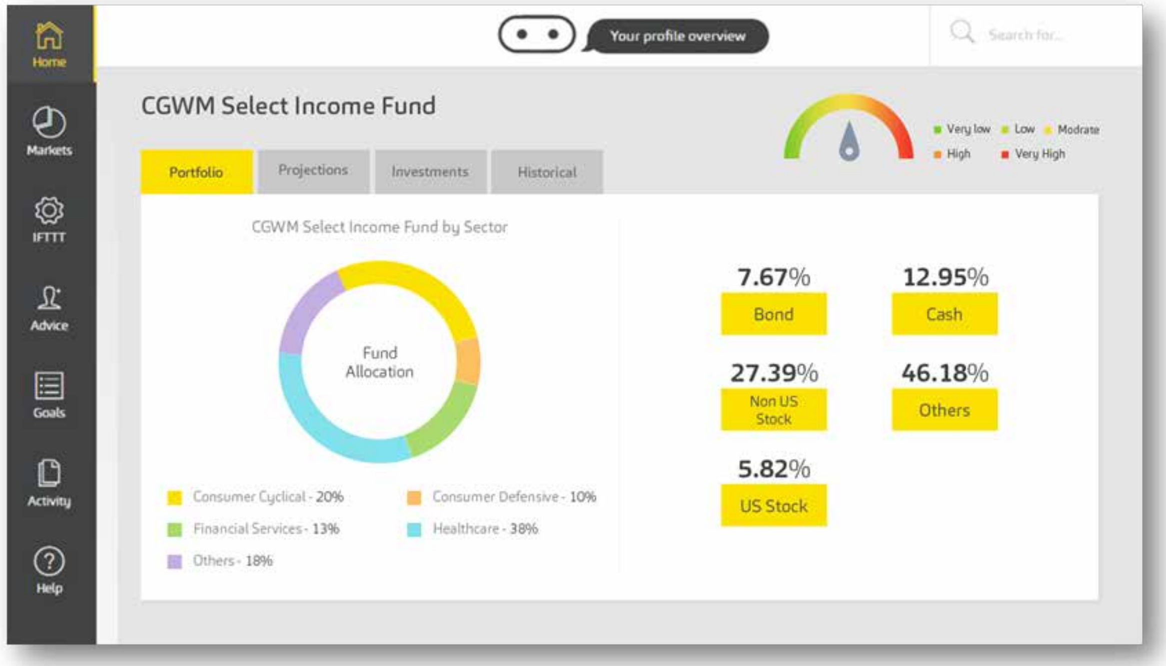
In one chat with a customer, banks can:

- Help someone onboard and make an important financial decision.
- Handle any complaints or concerns personally.
- Upsell or cross-sell their other products.
- Offer contextual loyalty reward incentives.
- Answer questions about "best-fit" financial products and offer alternatives.
- Get customer feedback.
- Provide an investment portfolio update
- Execute a trade to buy or sell shares.
- Apply for a mortgage, personal loan or process an insurance policy.
- Deliver important, time sensitive transaction notifications.
- All at the pace of instant messaging.

By combining hands-on service with some element of automation - alert notifications and auto-dialers, for example—financial institutions can manage customer relationships a little easier and with a degree of personalization.

While chatbot AI isn't yet 'turing' enough to become the "face" of the bank's brand in a sales or customer service role, it is at an inflection point where it can take on some of the many manual and repetitive burdens that come with running a first-line support for business—particularly when that support is executing mundane tasks for marketing and operations. Today, the most effective bots work well because they serve a specialized function, and offer a customer experience that begins with a few options or yes/no questions, before branching off to ask you further detailed questions as required or performing an action based on the information that you've provided.

For bankers contemplating how to implement a chatbot in 2017, it is imperative that they think of "conversational commerce" as a way to turn dialogue—the natural back-and-forth exchange of information—into a more meaningful discussion with consumers and businesses. Whilst chatbots are not new, banks should not underestimate the amount of attention, buy-in and innovation needed in developing them effectively, and should look to trusted technology partners who have experience in developing chatbot and NLP solutions. In the world of chatbots 'first impressions' are everything, and when you think about it, the sincerest and most special form of engagement a customer can have with its bank or insurer isn't a retweet, a Facebook Like, or even an email opt-in. It's a conversation.



Artificial Intelligence & Advanced Machine Learning

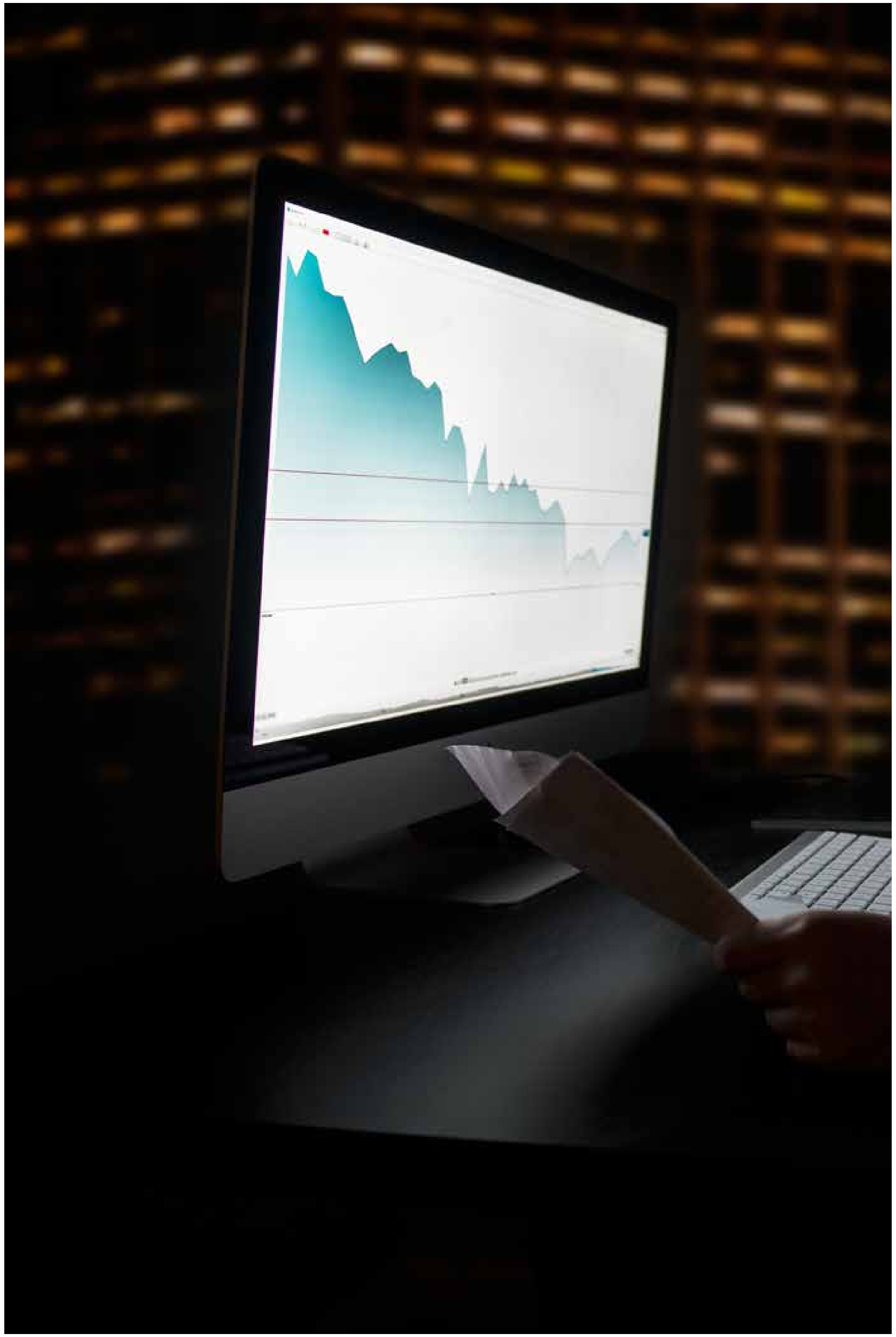
Whilst chatbots are the sexy part of banking, it is in fact the brain behind the BOT that is enabling the disruption of traditional customer service in the financial industry. Artificial Intelligence (AI) has reached a critical tipping point and will be at the heart of a convergence of technologies like Data Science, Internet of Things (IoT), Optical Character Recognition (OCR), Natural Language Programming (NLP) and Blockchain that will drive structural change in the way financial services operate. Developing systems that learn, adapt and respond autonomously rather than simply execute predefined instructions will be the battleground for technology vendors throughout 2017, and indeed over the next few years. These vendors will not only require deep domain expertise and understand the nitty gritty of underlying traditional processes, but will need the technical capability to deliver 'digital', and design thinking - a combination of skills that is very hard to come by.

When considering the automation opportunities offered through AI, many banks have identified onboarding and know your customer (KYC) processes as the priority area. Traditionally a paper-intensive, and full-time employee (FTE)-heavy operation, the customer acquisition process is often the first impression a new customer gets of a bank, and subsequently is the prime focus of digital-only challenger banks who seek to disrupt the industry. New advancements in integrating OCR and NLP, now enable banks to deliver a more frictionless experience by allowing customers to easily upload documents through their mobile camera and extract both the needed data fields and 'intent' of documents to fully-automate the credit decisioning process. The Mortgage Bankers Association has forecast that the home purchase originations and refinance originations will total $1.31 trillion in 2017, and with document management costs forming a huge part of every mortgage originated, any increase in straight through processing of documents will reduce the burden on the industry as a whole. The potential for FTE cost savings and reduced turnaround time for near-instant fulfillment of new account opening or loan origination are incentives too hard to ignore, and you can expect banks to invest heavily in the ability to read and automate structured, semi-structured and unstructured documents. Coupled with the combination of more affordable and extensive processing power, general availability of algorithms through algo 'marketplaces', and colossal data sets to feed the algorithms has unleashed a new era of RPA. In 2017 Robotic Process Automation will become a key priority for bank executives looking to do more with less.

Within the broad space of AI and Machine Learning, the business likely to be most adoptive of these technologies in 2017 is the Wealth Management industry. With the proliferation of ETFs and new entrant competitors like eToro, Betterment and Wealth Front, expect traditional wealth and asset management firms to start developing and launching their own hybrid robo advisors to compete. There are many variations and perceptions of what exactly a robo-advisor does. Simply put, a robo-advisor is a tool or solution that uses a variety of methods and algorithms to automate the asset allocation of investments for an individual's unique persona. Furthermore, a hybrid robo-advisor includes facilities to foster engagement and one-to-one interaction with human financial advisors – typically for more complex services and advice such as taxes, retirement or estate planning. Another form of robo-investing is through high-frequency trading where 'bots' can generate as much as 80% of daily volumes on the stock market and execute buy/sell trades in microseconds. Incumbent wealth managers and private bankers are all too aware that the future of their business will be about the successful use of this technology.

Unfortunately, the historical problem with trying to get a Financial Investment Advisor, was that many insist on a large, minimum sum of money to invest which has been beyond the reach of most individuals particularly those who are younger, or have a lower net worth. For the most part robo-advisors in 2017 will solve this problem, and can help inexperienced individuals with goal setting and asset allocation — particularly when they have little idea where to start. Thanks to the rise of such AI and associated technologies, investing for the future will go mainstream in 2017 and provides a solution for the mass market of individuals who previously could not afford such advice. While the investment advice of a robo-advisors may not be perfect, it is far superior to what most inexperienced individuals have — which is usually an assortment of investments with no asset allocation, actively managed funds, high annual fees, and whatever "investment du jour" their friends have recommended. Throughout the year expect the industry to launch a range of robo advisory services, some will have a simple focus on the end-goal and are ideal for individuals who don't care or want to learn about the details of investing. For these individuals, the annual fee of 0.25%, or less, is well worth good financial advice that they wouldn't otherwise have had. For more mature and astute investors, the services of a hybrid robo-advisor are needed because some financial advisors add tremendous value through the guidance of asset allocation based upon unquantifiable factors, which automated algorithms cannot do. These advisors can give experienced advice about long-term life decisions like planning an education fund for children. A Hybrid robo-advisor is essentially a tech-assisted firm, and not 100% automated. It allows wealth management firms who use their people to generate fees with a partially automated solution in which the human element is not completely removed from the loop. Most private bankers and wealth management firms agree that there is value in algo-driven investment approaches, but whilst it might help as a mass-market solution, there are frequently edge cases where automated guidance isn't appropriate.

An enormous transfer in prosperity from an aging baby boomer generation to generation Y is in progress, and it is reshaping the industry in ways that demand greater efficiency and adaptation by incumbents. The stakes after all are enormous, and each year $1 trillion is inherited by new generations. Global High-Net-Worth Individual capital is estimated at over $56 trillion, and is anticipated to grow at an average annual rate of 7.7% over 2017. By 2020, baby boomers and millennials—those currently aged 50 to 16, will retain over 50% of all investable assets in the U.S., some US$35 trillion. While generation X will continue to be the most affluent segment leading up to and beyond 2030 their share of net household capital will reach its zenith in 2020 and trickle down to 44.4% by 2030. In 2017 younger investors will never be more important to wealth managers, and therein lies the biggest challenge for the industry: according to a 2015 report by PwC, asset attrition rates exceed 50% in intergenerational transfers of wealth. Robo advisors may well be the answer in solving customer retention and loyalty in an environment of constantly changing demands and availability of choice.



Challenger Banks, Power shifts and Market Cannibalization

The clock is ticking and Rome is still burning. As banks get nearer and nearer to the critical point of millennial banking 'compliance' (widely considered the year 2020) the survival stakes for traditional incumbents is getting higher. For many financial institutions, the decision to execute large scale digital transformation programs has come late, and for those with complex, legacy technology, people and processes the challenge seems unsurmountable. Never before have so many digital transformation programs, many induced by Directive on Payment Services 2 (PSD2) and regulatory motives, failed at such a consistent rate. Today, many FI's are faced with the conundrum of what to do:

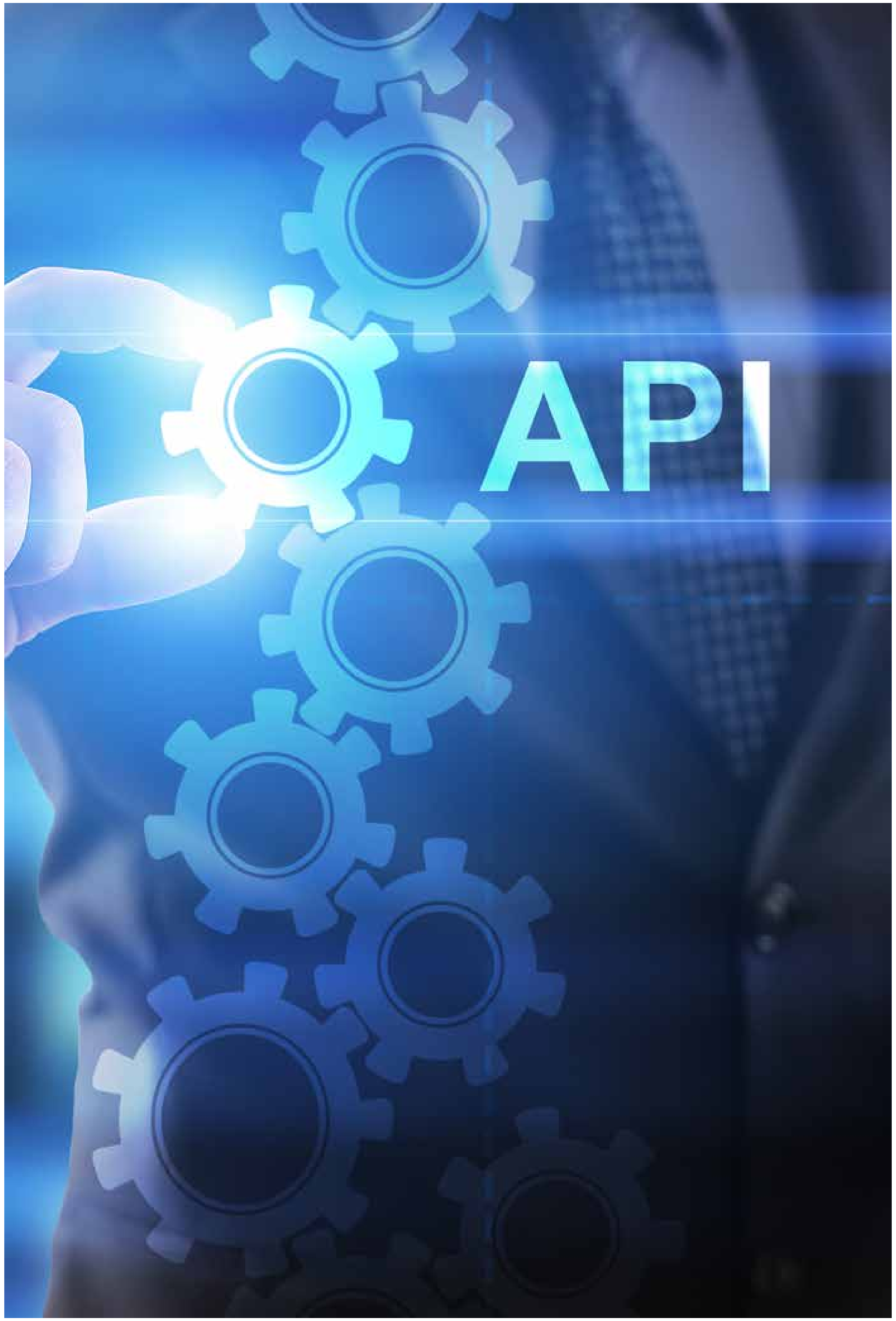
- Change their outdated and antiquated legacy business – and do it fast!
- Build and launch a green field digital bank ultimately aimed at cannibalizing the traditional business
- Acquire an established neo/challenger bank and bolt-on a few fintech startups.

Unfortunately, 2017 will not reveal the 64 quintillion dollar question, but what is certain is that we will see a trend of all three strategies increasingly take up boardroom conversations. The biggest danger facing incumbents is that the existing management go through the motions of digitization and launch a 'digital bank' that is all show and no substance. There needs to be real, meaningful change within the bank for customers to experience a real difference.

Internally within banks structural change will instigate a power shift amongst executives. CIOs will no longer be the most influential technology decision makers, and the continued rise of the Chief Digital Officer and in many cases the Chief Marketing Officer mean that the business will increasingly usurp the IT team in implementing 'digital' throughout the organization. The Chief Data Officer will be all powerful, and what has become abundantly clear is that for banks to succeed in an increasingly digital world, the leadership need to be technologists at heart. For this to happen however, the role of the Procurement Team will also need reevaluation and could result in new vendor evaluation processes designed with agility and time to market in mind – rather than just cost negotiations, vendor consolidation, and industry reputation. Much can be said about how traditional procurement and technology processes stifle innovation, and the flurry of fintech unicorns entering the market, and introduction of partner incubator/accelerator programs is testament to the way the 'rules of the game' are being rewritten.

With that said, the fintech bubble is also likely to see a few slain unicorns in 2017, as many who were once the darling pioneers of the disruption industry are not showing reciprocal results, and are unlikely to survive the year. In 2017, several significant fintech startups will have received more than 3 to 4 years of funding and if the market is not conducive to a healthy IPO, or results are not showing the massive potential once envisaged, the taps are likely to get turned off. This trend will be no surprise given that for most technology VCs they expect only 1 in 10 investments to pay-off, but it means that the fintech startup scene, and associated hype cycle, may get a little dose of reality and start to feel a little deflated in 2017.

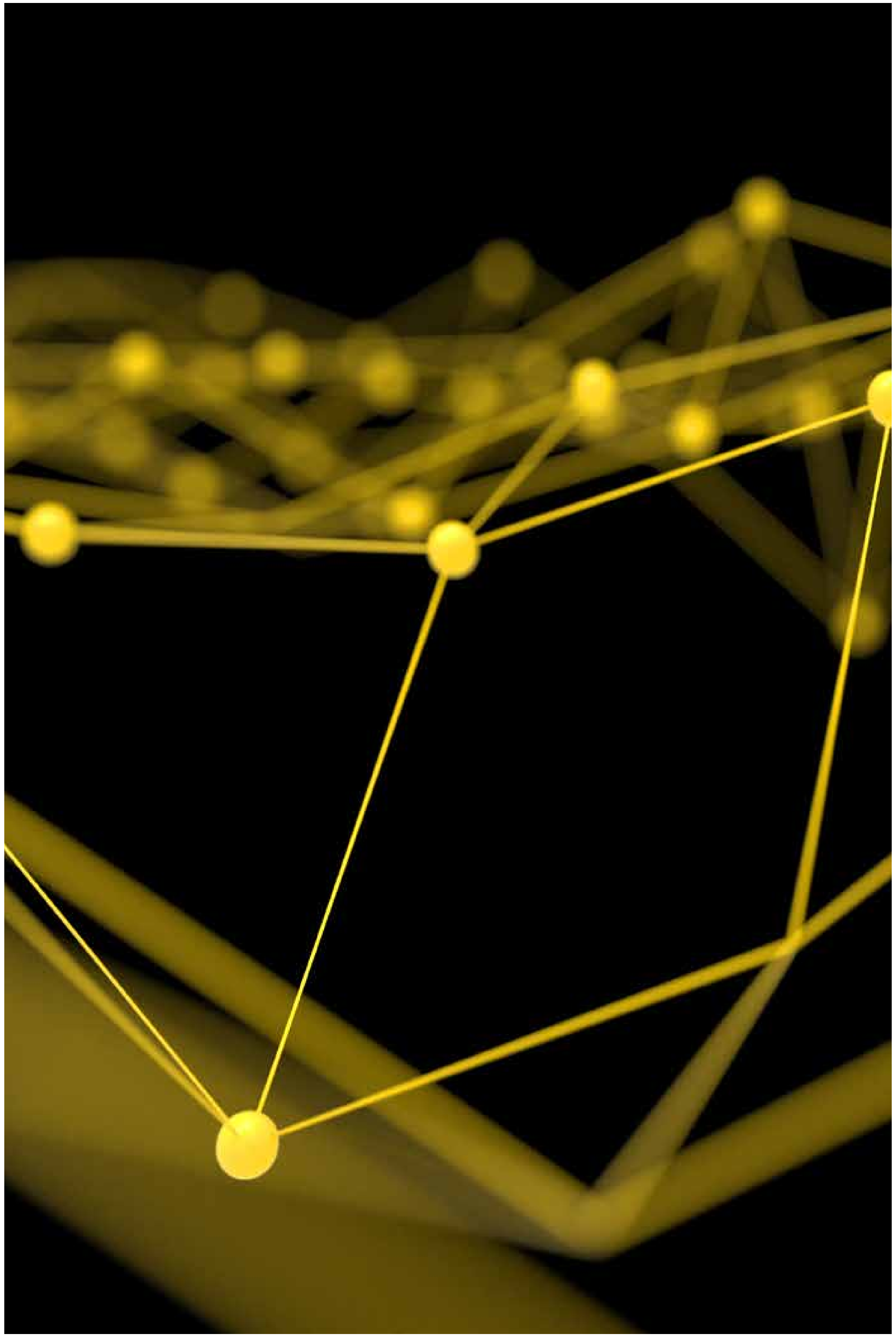
On the upside, the massive vacuum of digital talent in the financial industry may get some much-needed relief from the new entrants who become available on the recruitment market. In 2017 digital talent will be an imperative for businesses who look to build sustainable digital-first businesses. To attract and retain this talent however, is a challenge in itself. Banks and insurers have historically had a very hard time attracting a millennial, digital-savvy workforce and will look to partner with vendors who have this capability. As part of a structural change in the financial services offered to customers, the banking and insurance workplace will also have transform drastically. Flexible working hours, creative and energetic office environments, and more meaningful work will be key in imbibing a new digital cultural throughout the organization. Going 'digital' does not just mean changing the services you offer to customers but also the work ethic and values of your employees. Expect significant discussion in 2017 on how financial institutions with create the 'workplace of the future.'



The Open API Bank

As the Banking Financial Services and Insurance (BFSI) industry moves towards an environment that is fast and agile, runs in the cloud, and where customer acquisition is expected to be lightning fast, many firms will begin to launch their own app marketplaces through Open API programs in 2017. Over the past 12 months there has been a consistent uptake in such platform solutions from leading organizations like Citi and BBVA, and pioneering leaders like Santander have established reliable business models for fintech banking to be borne out of open APIs for some time now.

In 2017 open, unified solutions will continue to be launched by banks and insurers and make it possible to deliver new digital products and services, whilst still maintaining a multidimensional customer experience across all digital channels. As bank CIOs and other IT and business leaders face intense pressure to increase channel efficiency, and reduce operating costs, whilst still delivering next-generation digital services; open unified digital banking platforms will emerge in 2017 to address this demand. Open API's platforms will enable banks to bring together new and existing processes as a means of offering the innovative digital products and services that are critical to retaining and attracting customers in an increasingly competitive market. Platformification, a term coined by fintech expert Ron Shevlin, will support open, unified, multichannel integration, a crucial differentiator that empowers banks to focus on synergies across all channels and partners — both internal and external — rather than simply on the delivery of a specific product, service or transaction. Over the next 12 to 36 months digital banking API platforms will be launched by the majority of banks and will include a broad range of capabilities — including financial management, payments, marketing, loyalty, analytics and customer communication management.



More Blockchain

No banking trends article would be complete without including the one technology that has had the industry buzzing all year. 2017 will not be the year when blockchain solutions go mainstream, but interest in the technology has garnered significant investment in 2016 and according to Greenwich Associates, global financial institutions and technology providers spent more than $1 billion in 2016 on capital markets blockchain. Blockchain has reached what Gartner's "hype cycle" calls the "peak of inflated expectations," with searches reaching an all-time high in June 2016. With the growing investment and enthusiasm has come a frantic need to be one of the herd, leading firms to act quickly or risk being left on the sidelines. This fear of missing out on blockchain (Blockchain FOMO) is understandable - the stakes are high and the technology is moving quickly. But frankly, many financial institutions don't know where or how to start. 2017 will continue to be a year of Blockchain experimentation, and whilst we are likely to see the rise and fall of some blockchain consortiums, one trend that will remain is the appetite for banks to work together and leverage blockchain accelerators to run proof of concepts or controlled pilot programs. The biggest challenge facing the industry today is the scarcity of blockchain talent, not only from an application development perspective, but also from a domain expertise angle in which business use cases are validated and earmarked for blockchain transformation.

In 2017 Financial institutions that understand how to apply blockchain technology to customer-focused business processes will seek to gain competitive and cost advantages. Software vendors with pre-built and production ready blockchain solutions will attract major interest from firms looking to fast-track their blockchain programs and get a head start on integrating more cost-efficient technologies into their institution's operations.

What is clear, is that Blockchain is here to stay, and it is only a matter of 'when' not 'if' it will begin to make inroads into mainstream banking.

Conclusion

Expect 2017 to be a year of more disruption, more change and the odd incumbent casualty. With rising urgency for digital transformation, banks will seek to accelerate existing plans and are likely to orchestrate organizational changes driven by new leadership, to deliver them. Artificial intelligence firms will flourish in 2017 and banks will seek to use their technologies to reduce costs, automate mundane processes, and differentiate service levels through personal data insights that were never available before. The chatbot will change the way we deal with large organizations and will spearhead a flurry of initiatives designed to keep the customer at the core of the business. 2017 threatens to be the year when banks will signify who are the market leaders from the followers in the run up to 2020, and many will look to reap rewards of a changing demand for financial services from an ever increasing millennial population.

Global Footprint

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