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The Top 5 Trends in Banking for 2018

David Horton
Managing Director - Innovation, Business Development

Banks are all too aware that digital transformation is a priority, and they are embracing technologies like blockchain, artificial intelligence and chatbots to reinvent themselves and enhance digital-first engagements. Incumbent challenges like legacy systems, cyber security threats and regulation have not stopped banks from investing in their future and an optimistic economy has provided a profit boost for the banking industry. Innovation will remain a key differentiator in an increasingly saturated banking market. These are five top areas that banks can and should focus on in 2018.

01

Open Banking, Open APIs and Banking as a Service

For years there has been talk of how 'Open Banking', 'Open APIs' and 'Banking as a Service' will disrupt and drive a new model for digital banking services. In simpler terms, banks will allow each other (and authorized fintechs), to have access to their customers' account transaction data with full read and write functionality. It is on this theoretical basis that companies like Google, Apple and Facebook are expected to transform banking as we know it, without having to become 'banks' themselves.

Many financial institutions have already preempted this potential threat by launching their own Open API programs (e.g. BBVA, Citi, Capital One) to monetize their core value propositions whether that be their unique data, research/ analytics or intellectual property. Banks, for instance, can generate new fees by offering new products/ services. Exchanges, bespoke research firms, and investment institutions will all be looking at ways to build an open API strategy. As the fintech ecosystem develops and matures in 2018, it would not be surprising to see banks acquire many of these startups to target 'switchers' and increase wallet share (see: Zelle, Yodlee, Mulesoft, Apigee)

In 2018, Open API banking will finally come of age with the Payment Services Directive 2 (PSD2) going live January 13, impacting the last-mile payment process by allowing third parties to initiate payments directly from a person's account as a bank transfer, potentially losing banks 9 percent of retail payments revenues by 2020.

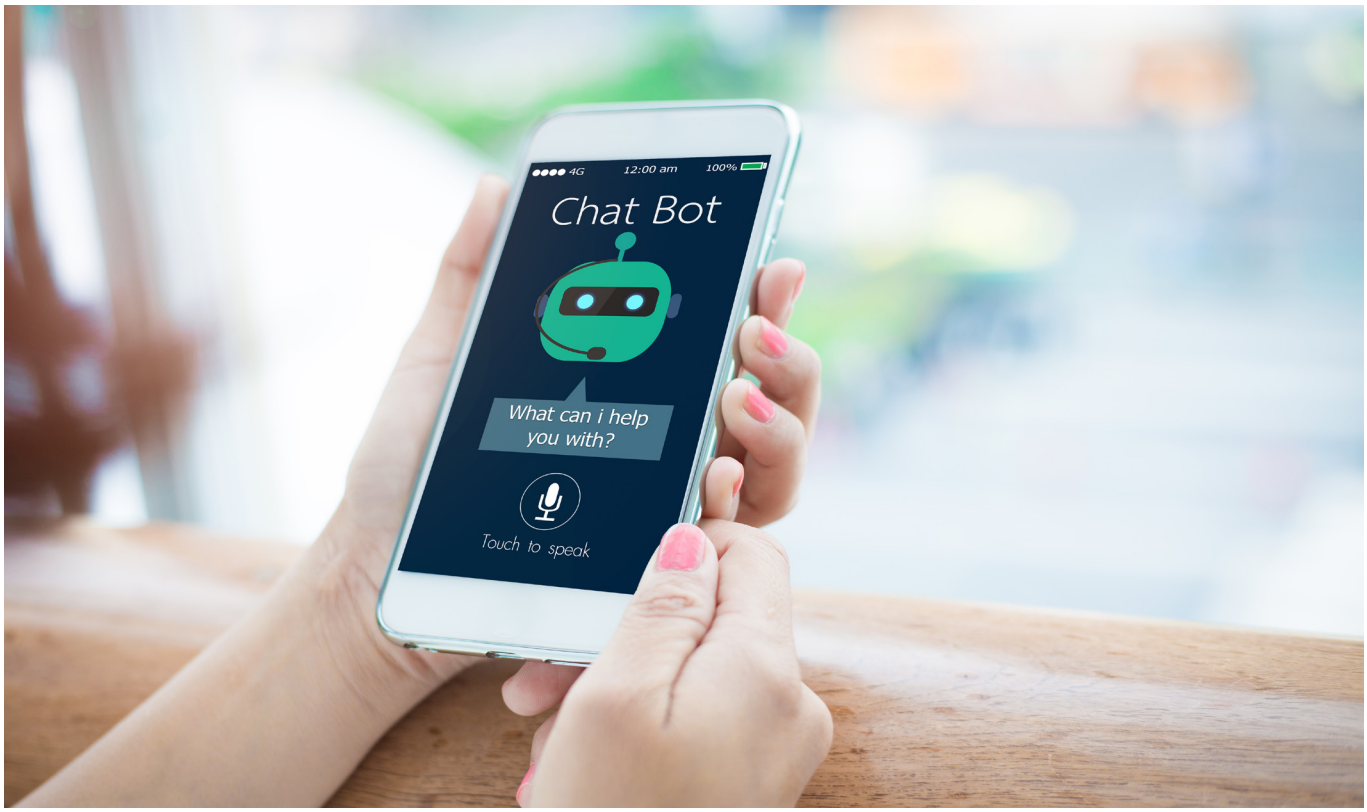
02

Redefining 'Work' and the 21st Century Banker

Second of all, 2018 will see a first step toward building a new culture and productivity model within the banking workplace in a move to 'Google-like office environments' to attract skilled talent and drive greater productivity as the war for attracting and retaining technology talent gets only more competitive. Subsequently, banks will spend time reshaping their employer value proposition and work atmospheres, geared toward the values and environments they believe millennials will favor – like bringing out the 'intraprenuer' in every employee. This is critical for workforce planning given in the next 8 years, millennials will constitute roughly 72% of the global workforce.

The adoption of cloud applications like Trello, Asana and Slack, BYOD (Bring your own device), instant messaging, video-chat and social-media like platforms for team collaboration will drive a new minimum toolset for this workforce with the digitally-enabled flexibility to which they are accustomed. Reporting structures, hierarchies, and bonus/incentives will also need to be re-structured to mirror more innovative approaches that challenger banks are taking to create team-oriented structures that reward not just the best individuals but the best combination of complimentary individuals. And, these team structures need to keep in mind incredibly different personalities and drivers across the traditional

banker, versus 'the techie', versus the 'hipster designer,' versus whatever other archetype will be needed to drive forward the business vision. This could mean a dramatically different compensation scheme moving away from direct sales commission on customer acquisition to KPIs based on values like automation, innovation, teamwork, and customer experience optimization.



03

Voice Commerce, Natural Language Processing and Generation

For humans, voice is innately the natural choice for communication. We use it to exchange intelligence, indicate our emotions, and coordinate life in general. Automatic Speech Recognition (ASR) is the technological capability to distinguish vocalized words, and we finally have reached an inflection point in accuracy and an acceptance of digital voice assistants like Alexa, Cortana, Siri and Google Now.

According to several research reports more than 50% of all internet searches by 2020 will be voice-initiated. In fact, in certain countries like China, where typing on a mobile phone is less convenient than speaking, there is already a tendency towards voice-first. Platforms like Reflektion, Klevu, and Inbenta are using Artificial Intelligence and Natural Language Processing to drive conversational engagement in site search. In banking, there is a trend toward voice banking and payments, with AI solutions like Synechron's Neo, Kasisto, Cliq, Nuance and Personetics leading the way.

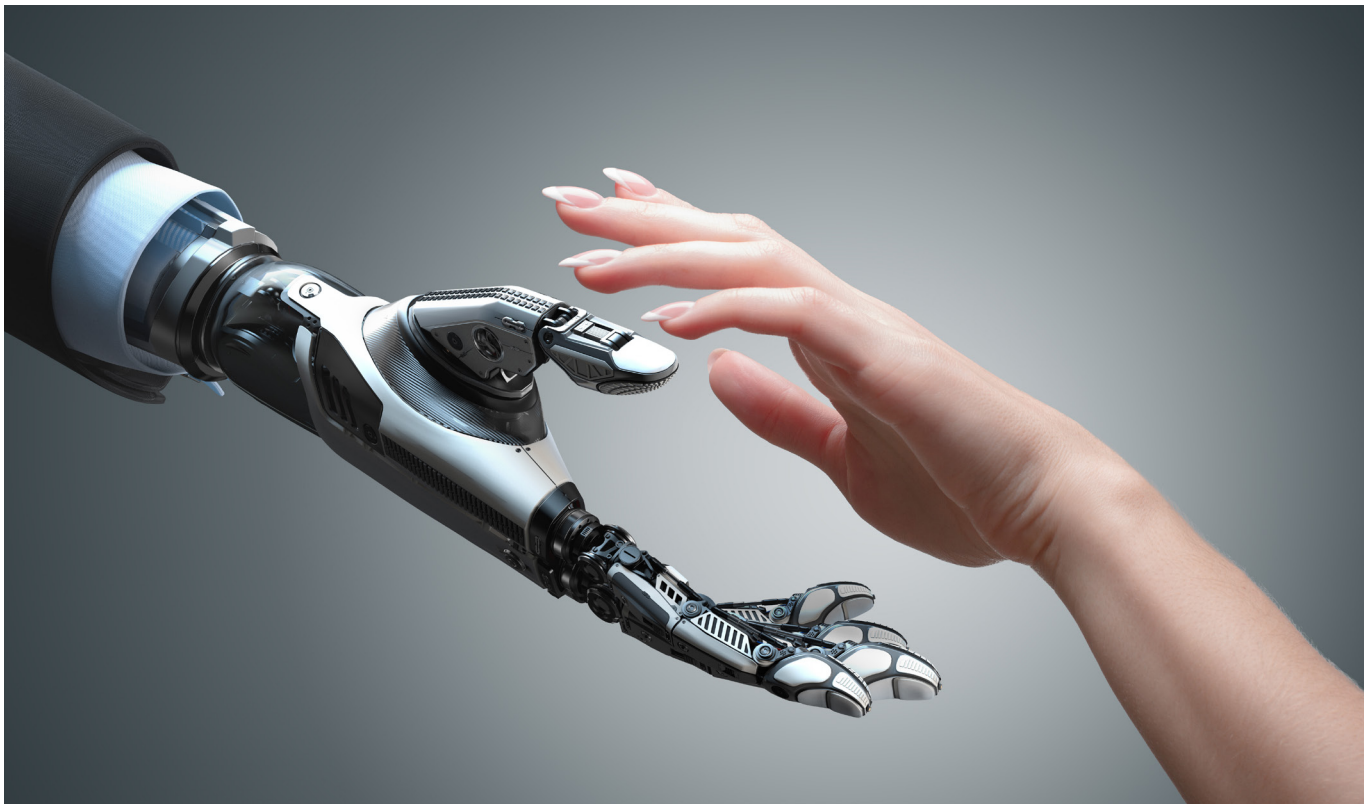
Companies like Amazon and Google continue to introduce new features and toolkits that are continuing to drive change. With the Amazon Show, we now have an in-built touch screen and front-facing camera that allows for authentication on our voice banking app easily. Other voice-based technologies like 'hotwords' will help shape banking innovation in 2018 as our mobile microphones listen in on our conversations for more targeted advertising. 'Hotwords' are also capable of transforming areas like financial advice, customer service, compliance, and even real-time personal finance management, allowing our favorite PFM solution to receive alerts when certain flag words are said or missed. This could change everything from product recommendations to surveillance and sentiment analysis.

04

Biometrics and the Internet of Me

For most banking innovators, the Infosec team is viewed as the team that killed the customer experience. In 2018, this is set to change, with biometric adoption going mainstream largely due to the out-of-the-box integration with our smartphones, wearables, and IoT devices. Market watcher CCS Insight has predicted this market to be more than US$40 billion by 2020. This is driving a new trend – the internet of me – where we are connecting our bodies and brains to the world wide web to better understand our health, behavior, and more. This also is commoditizing facial, iris, and fingerprint authentication, supported by native Bluetooth and NFC functionality to unlock new possibilities for financial institutions that value user experience but require high-level security.

Banks and Insurance companies are using the IoM access to lifestyle data and spending patterns, and the market for financial applications and solutions from banks and insurers will increase exponentially – supported by cloud-based delivery and effective big-data infrastructure. Such convergence in technology is likely to lead to the amalgamation of B2B and B2C business models into new "business-to-business-to-consumer" (B2B2C) models where data can be used for behavioral targeting, modification and authentication. At Synechron, the R&D team has used biometrics in application features including:



05

Cognitive Automation

While Automation was on everyone's agenda in 2017, the RPA platforms available today are relatively basic and struggle to deal with more complex, exception-based processes, particularly if they involve unstructured data. For this reason, one significant banking trend in 2018 will be a move from RPA to Cognitive Automation.

Cognitive Automation is the natural evolution of RPA, which learns your mouse clicks and other desktop PC patterns using clever techniques and screen scraping, and combines it with the power of data science, machine learning and cognitive computing. Unlike RPA, cognitive automation focuses on meta-human automation which compliments humans and makes them quicker, smarter, better employees. Ultimately, the goal is taking the robot out of employees so that they get more time to do strategic work, talk to each other, and innovate. The challenge is it involves considerably more variables to be effective, often involves neural networks and requires a more refined skillset.

Financial institutions looking to implement an effective automation program should categorize and identify internal processes that sit either in the RPA bucket or the Cognitive Automation bucket. Typically, RPA bots can bring about efficiency benefits in areas like loan processing, customer profile updates, card issuance, invoice generation, compliance reporting, insurance claims processing, and reconciliation across systems. These tasks generally fall into 3 categories: 1) simple data input (compliance verification), 2) basic rules-based (reconciliation tasks), and 3) advanced rules-based (loan origination).

RPA, however, will fail on processes involving areas like fraud and AML checking, market sentiment and prediction, and product recommendations – which are better suited to cognitive automation. However, keep in mind, cognitive automation is inherently complex, requires careful planning and adequate human resourcing.

Summary

2018 will be another exciting year in digitizing banking services. If I had to describe in one word the category of change that banks need to make - it would be 'structural'. Those who do not make significant structural inroads in 2018 will find it hard to compete in the lead up to 2020 and will show concrete signs of lower revenue, customer attrition and shareholder discontent. The pace and variety of new technologies that are seemingly coming together means that banks have so much choice on how to innovate and differentiate themselves to an increasingly growing digital customer base.

Global Footprint

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