

Towards Tomorrow:

Forces shaping the future
of financial services

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The changing landscape in 2019

The activities that have occurred within the Australian Financial Services industry (FSI) during 2018 have laid the foundation for a challenging 2019. A wave of unprecedented challenges are amassing on the ‘financial services horizon’. Across regulatory, banking, consumer finance, insurance and superannuation, the message is clear – 2019 will be a year of accelerated transformation aimed at delivering balanced outcomes for all stakeholders, as well as a period of risk mitigation. There appears to be a strong commonality in that neither regulators, shareholders or customers have an appetite for sub-standard performance.

While many of the demand themes that have dominated investment in financial services in recent years will continue, the following trends are those that are likely to be further accentuated in 2019.

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5 key trends

1. Increased regulatory scrutiny

The impact of the Hayne Royal Commission was felt long before the final report was tabled. In the second half of 2018, a substantial spike in data discovery and forensic analytics activity led to a surge in demand across Data, Analytics and Insights practices. The surge spanned advisory, consulting and solution provisioning as clients embarked upon an array of operational discovery, remediation and regulatory compliance programs.

Not surprisingly, regulators are now initiating programs clearly aimed at increased vigilance and agility as they anticipate heightened responsibilities and powers during 2019. New and enhanced regulatory regimes, such as the Economic and Financial Statistics Collection, provide an insight into the direction regulators may be taking. It is anticipated that many FSI entities will be challenged in efficiently meeting these evolving requirements, particularly in sourcing, assembling and lodging data that complies with increasingly complex validation rules.

2. The ongoing battle for customer retention and growth

With the homogenisation of many FSI products over recent years, the ability to differentiate around product features alone is nearly impossible. Dimension Data's most recent research in this area reveals that almost nine in every ten organisations now acknowledge customer experience (CX) as a competitive differentiator and the key to customer retention and growth. While some 6.8% still deny the relevance of CX to their success, that number has more than halved, down from 13.4% in 2015.

While there has been significant investment in this market segment for more than a decade, the level of investment spanning almost every segment within the FSI market grew exponentially over 2017/18. Looking to 2019, there appears to be a step change in the financial services 'customer battleground'. Faced with increasingly circumspect and demanding customers, particularly in banking and consumer finance, the Australian financial services marketplace will see initiatives aimed at further streamlining the customer experience and creating tangible customer value. Sophisticated bots possessing machine learning and EQ capabilities, augmented reality supporting regular everyday banking activities, channel-less banking and the potential for card-less purchases using advanced biometrics are moving out of R&D laboratories into pilots.

With the release of the Hayne Royal Commission recommendations in 2019, customers are seeking increased portability from their banks and superannuation funds as they demand and seek out greater value. Intensified focus around Open Banking initiatives will increase the risk of customer churn and intensify the battle for retention and growth.

3. The realisation of new business models

Next generation entities, such as neo-banks and peer-to-peer (P2P) lenders, have established their businesses upon digital platforms and highly progressive business models. Within the Australian Financial Services industry, a number of these entities have moved well beyond being fringe players to a point where they are taking market share from traditional, well-established organisations.

A good example of this is occurring in the Superannuation sector where successive decades of negative net-promoter-scores have given rise to the exponential growth in Self-Managed Superannuation funds (SMSFs) enabled by platforms provided by these 'next generation' entities. Today, SMSFs represent the largest segment of the superannuation market (measured by AUM).

Throughout 2018, the market witnessed a sharp rise in the level of activity amongst traditional FSI players in assessing whether their business models are 'fit for purpose' in a rapidly evolving market. Such assessments range from Tier 1 banks through to a host of second tier and specialist financial services organisations. Focus areas include IT and business operating models, tech-enabled go-to-market offerings delivered through commercial relationships between FSI and non-FSI players, and ingestion of capabilities delivered via fintech, regtech and insurtech actors.

A near-consistent objective across each of these initiatives is that traditional FSI entities aim to maintain a direct customer relationship. In doing so, their brand is directly linked to the creation of customer value and therefore avoids the scenario of being relegated to white-label 'back-office' entities. The view is that Open Banking regulations, which take effect in 2019 and 2020, will further accelerate transformation initiatives involving the review and re-definition of business models.

4. Cyber resilience and trust

Throughout 2018, one of the key topics that was front of mind for directors and executives was cyber resilience and trust. This pattern appears to be continuing into 2019. With cyber crime now costing the global economy more than AUD800 billion annually, the threat of financial loss, reputational damage and prosecution of directors has never been more real.

As a result of escalating cyber security risks and the rapidly increasing sophistication of the attackers, some banks, consumer finance and insurance companies have abandoned attempts to operate their own Security Operation Centres and cyber security services. Many FSI players – operating in settings characterised by compliance with countless rules and limited funding – are finding it difficult to head off threats coming from sophisticated ‘Dark-Market Organisations’ who operate in settings where no rules exist and funding is abundant.

Added to this, there seems to be an increase in internal organisational tension, due to the competing priorities that often exist between those responsible for cyber resilience and those leading digital transformation initiatives aimed at improvements in customer experience, operational efficiency, enabling new business models and the like.

According to Dimension Data’s 2019 Customer Experience Benchmark report, almost one in four (22.3%) say cyber security threats associated with new digital channels are a key challenge and could slow down digital transformation. That said, the findings also reveal a ‘give-and-take’ scenario: while cyber security is seen as a core risk for organisations that want to introduce new Artificial Intelligence (AI) and service automation technologies, the trade-off is that they also expect those same systems to mitigate other risks by reducing or eradicating human intervention.

It can be suggested that the rapid growth in security services in the Australian financial services sector is directly attributable to these circumstances and research suggests that this will continue to grow well into 2019.

5. Efficient operations: Automation and cognitive capabilities delivering multi-dimensional value

With many FSI entities now completing ‘first round’ Robotic Process Automation (RPA) pilots and production deployments, the true potential of automation and cognitive capabilities is becoming clearer. While the initial motivation for these programs amongst many FSI entities was to reduce operating costs, the benefits have demonstrably extended to an improved customer and employee experience, and improved process auditability and compliance. The latter suggests a lower risk in core functions, including credit management, regulatory compliance and operations.

The forecast growth in automation and cognitive capabilities is highlighted in Dimension Data’s 2019 Global Customer Experience Benchmark report, which states that investments in Virtual Assistants will surge by 400% in 2019 while proactive automation will expand threefold during the same period. Correspondingly, the same report highlights that 88.3% of organisations forecast that channel traffic will increasingly be controlled by RPA and cognitive platforms as we approach 2020.

Finding the right balance

Creating value for and cost-effectively engaging customers by leveraging emerging technologies and practices, yet remaining compliant with an evolving regulatory regime and defending against increasingly sophisticated and well-funded cyber attackers... this is a significant balancing act indeed and one with inherent and unprecedented risks.



Focus priorities

for 2019 and beyond

1. Regulatory compliance

Addressing increased regulatory compliance requirements and the outcomes of the Hayne Royal Commission

The Royal Commission into misconduct in the Banking, Superannuation and Financial Services Industry will introduce new compliance and reporting requirements across all sectors. While these might be seen by many as new burdens that will divert funds from other programmes of work, some companies will realise the opportunity to improve the way they manage their data and business as part of data-driven transformation initiatives.

Leverage the benefits of modern data management approaches

Consistent management and curation of data helps an organisation to intelligently meet regulatory compliance and reporting requirements. Where once data management and data governance may have been viewed as a policing function, or necessary obligation, today's modern data management platforms enhance the value of the data within your business without compromising controls.

Your data management platforms must be flexible, sustainable and responsive. They must be able to support the incorporation of new data sources and elements without the need to re-architect.

They must be extendable across all business processes and all data types in order to ensure the quality of data ingested is as high as possible and that data lineage is preserved to provide ongoing fidelity.

Use automation for built-in compliance

In tomorrow's workplace, automation and the proliferation of bots will free employees from routine tasks, allowing them to focus on higher-order knowledge work. But automation and robotics also have an important role to play in improving regulatory compliance.

Automation does not just eliminate human error throughout a process, it can also establish clear audit trails for activities and perform intelligent filing, archiving and document retrieval.

While initiatives like this promise much in terms of operational efficiencies and compliance, they will challenge organisations to fully define their processes, business rules and compliance regimes. They will also present new challenges, such as how to manage the human/bot handoff point.

How can we help?

- Our Regulatory Compliance Data Maturity Assessment assesses your holistic readiness to meet your compliance reporting requirements.
- Our Data Validation Services check your data against data validation rules of regulatory authorities to ensure the quality of your submission and to reduce rework.
- With rich experience in data management and data remediation, we can provide the end-to-end Data Consulting services required to meet your regulatory obligations.
- Our Compliance Data Hub solution is a cloud-based platform that integrates data from multiple sources, ensuring all data provenance, lineage, tagging and security.
- Our digital solution experts can work with you to automate your business processes. From the use of bots in the customer service interface through to process automation and robotic process automation, we can help you choose and implement the right solution for each circumstance.



2. Customer engagement

Addressing the ongoing battle for customer retention and growth

A growing percentage of today's FSI customers have grown up as connected consumers – linked by technology to their peers, the companies they do business with, and also to a world of information. As a result, their expectations are far different from previous generations.

So what are some of the things you can do to meet the expectations of today's customers in order to retain and grow their business with you?

Create a seamless experience

Today's FSI customers demand a consistent and unified experience across all channels of customer engagement – from the branch to social media, mobile platforms or the contact centre.

Providing the ability for customers to engage in a uniform and coordinated basis across multiple channels – including using multiple channels for a single transaction – is critical to removing friction from your customer engagement model.

Create relevance in your customer's life

How can you become more central to your customer's life? Are you providing them with the information and services they need, at the time they need them? Can your products and services be personalised to resonate with their real needs?

Many FSI organisations have data relating to their customers that very few other companies can access – from what a customer is paid to where they eat out. This rich source of data provides a unique opportunity for FSI organisations to tailor offerings that relate directly to the customer's life, their preferences and social attitudes.

In the new digital world, customer engagement will increasingly mean not just providing a positive experience, but also enriching the customer's life through highly personalised and relevant information and offers. This holds true whether you interact with your customer numerous times over the course of the day (as is the case for a bank) or infrequently (as is the case for an insurance company or superannuation fund).

This requires moving from a single customer view (how they interact with you) to being able to analyse a whole ecosystem view (how they interact with others in the world more generally).

Improve employee engagement

Numerous academic studies have examined the direct linkage between employee engagement and customer satisfaction. Creating a connected and informed employee experience is vital to driving better customer engagement.

Employee engagement is influenced by many factors, from the company culture through to how easily they can access the information they need and connect with others across the organisation.

Seamless collaboration across different sites, states and possibly even different countries is essential for building organisational knowledge, increasing efficiency and streamlining your processes. Unified voice and data communications, virtualised meetings and conferencing can be adapted to any workplace or device to allow your employees to harness the power of teamwork and develop a culture where innovation can thrive.

Social technology platforms empower you to bring people together and bypass the historical boundaries of hierarchical businesses. And Artificial intelligence (AI) enabled knowledge management platforms ensure that your employees can rapidly access the information they require to address customer needs.

How can we help?

- Our Customer Experience Maturity Model provides a tool to help you rapidly understand the current state of your customer experience and the steps you can take to mature it in your organisation.
- By bringing together our skills in Contact Centres, digital channels and integration, we can help your company deliver a truly omni-channel experience. We can demonstrate the power that's to be gained by proactively supporting your customers to move seamlessly between channels and enrich their engagement with you.
- In an environment where every customer interaction is critical, it is important that your frontline service teams have access to all the information they need. Our Customer Engagement for FSI solution provides a rich CRM capability that delivers data at the push of a button, allowing service teams to focus on their customers' needs.
- Our data and analytics experts are skilled in sourcing and integrating data from multiple internal and external sources, and then undertaking customer analytics to improve your knowledge of your customers' needs, preferences and sentiments.
- Our Unified Communication and Collaboration solutions helps you harness the power of teamwork for strategic advantage – connecting your employees regardless of where they are located.
- Our Modern Workplace solutions provide AI-enabled workplace capabilities to maximise the productivity of your people – wherever they may be working.

3. Open ecosystems

The actualisation of new business models for competitive advantage

FSI companies have traditionally operated business models that place the company, its assets and shareholders at the centre, with other entities such as customers, suppliers, employees and partners defined by how they engage with the centre. As a result, corporate and service evolution has been relatively slow, as the company creates a strong gravitational resistance to change.

Now, at a time when the industry is being disrupted and power is shifting to customers, FSI organisations who assume that what's happening now will remain the status quo may be placing themselves at risk. Those organisations who plan on playing a part in the digital world need to focus on adding value to transactions, not simply processing orders from the back office.

Of concern to established players, some Fintech start-ups target specific elements of the financial services supply chain, disintermediating the relationship that traditional FSI companies have had with their customers.

What technological developments pose a risk to your business model?

Partner for performance

How do you create a flexible ecosystem that enriches the customer experience and increases your level of involvement in your customer's journey?

Traditionally, FSI organisations have stood alone, yet evolving business models that involve strategic partnerships with non-finance companies are emerging. The intent behind this new approach is to enrich the customer experience, thereby increasing 'stickiness'.

It's a new approach to what it means to be a bank, insurer or superannuation provider and, as more FSI organisations take a fresh look at their business models, a wave of innovation will invigorate the market. Traditional businesses must adapt and consider their options, or risk losing market share to more nimble, innovative, value-adding providers.

Create an agile business

Many businesses are striving to 'become agile'. But becoming agile requires more than just the adoption of 'Agile' methodologies – it has impacts right across the organisation, from marketing to operations, customer service, finance, procurement and HR. The change needs to be holistic.

An agile business can rapidly react to change, reconfiguring its structure, strategy, platforms and even culture as required.

Some of the keys to achieving a truly agile business include:

- **Unlocking data** – data that can be shared, understood and used to provide business insights and enable flexible processes and practices rather than hampering them.
- **Adopting flexible platforms** – platforms that can be quickly adapted to meet new business and customer requirements.

Creating a culture of innovation and collaboration—where employees are motivated to contribute to achievement of common business outcomes, not personal goals and KPIs.

How can we help?

- Our rich Digital Advisory services can give you a holistic understanding of your current level of Digital Maturity and plot an achievable roadmap to meet your business goals.
- Our IT Advisory services focus on how to make your IT function and underpinning technology more agile and responsive to a rapidly changing business landscape. We can advise you on how to reshape your business and IT capabilities to improve agility, and then support you on all parts of your journey.
- Through our CX-driven Enterprise Architecture approaches, we can help you understand and communicate how your enterprise currently works, and how to undertake the digital transformation required for business success.
- Our Data & Analytics capabilities will help enable your organisation to be digitally orchestrated and data-driven right to the core. This starts with measuring maturity and working with you to build a roadmap to uplift people, process and technology.

4. Cyber resilience

Building trust in an age of heightened tension and threats related to customer data

Customers expect their FSI providers not only to keep their money and other investments safe, but also their personal data in this new digital age. The sector has long invested in tight security, but with the continued rapid development of technology, threats continue to proliferate.

Embrace compliance

Both the Royal Commission's focus on the FSI sector and also tightening regulations such as regulatory authorities' information security policy have heightened the importance of monitoring and meeting compliance within the industry. This will have a direct impact on an organisation's priorities, speed, and agility to bring new digital services to the market.

CPS 234 commences on the 1st July 2019 and aims to ensure an entity takes measures to be resilient to the appropriate level against information security incidents, including cyber attacks, commensurate with the vulnerabilities and threats it faces.

Look for trusted advisors in a rapidly changing security and risk landscape

Coupled with a growing globally-based threat landscape, the IT environment is more complicated than ever before. An increasing reliance on third parties (often spanning multiple cloud platforms), the use of mobility to deliver financial services and the need to maintain legacy systems all complicate the provision of a safe and secure environment. This is driving the need for trusted advisors to help navigate this landscape.

Focus on effectiveness and cost control

Cyber security is an increasing percentage of the ICT spend of an organisation. Boards are now asking how much is appropriate to protect the organisation, what is the impact on the business, and what assurance do they have that they are getting value for the investment made. In response, organisations are moving to simplify the amount of technology in the environment and to standardise on fewer platforms that seamlessly work together with a higher degree of automation.

People want to know: will you protect my data and be open with me about how it is used or when there is an issue? Will you use the data you have to my advantage? Can I trust you'll give me the products and services I need? Will you be there when I need you, yet not intrude with unnecessary contact?

Explore innovative ways to address the skills gap

Australia, like many other countries, has a shortage of skilled IT security personnel. Employee retention, an inability to find people with the requisite skills, and unexpected and rising OPEX costs are common issues faced once a security team has been established. This has resulted in the rise of specialised Managed Security Service Providers (MSSPs) who can provide advanced security monitoring and detection services. Partnering with a good provider can alleviate some of the risk and cost in running these security services.

Make it personal, but keep it private

Gone are the days when we all knew our bank manager or insurer personally – when we trusted their knowledge of us and trusted how they would use it. Reconciling the ongoing desire for trust with the need to deliver personalised service at scale is one of the key issues facing the FSI sector today.

Expanding regulations around data privacy, such as GDPR and Australian Privacy Principles, mean that you need to provide your customers with greater access to the data that you hold on them, and be more transparent about how it is being used.

Prepare for the blockchain trust paradigm

Trust requires explicit guarantees. So it's no wonder that a disruptive technology such as blockchain is being mooted as a game-changing tool for trust-based processes (which is doubtless the reason why both regulators and many large FSI players are paying attention).

A blockchain is simply a record of entries or events in a digital ledger or database that is shared and replicated between multiple parties. Why it is so exciting that, subject to certain assumptions, the record cannot be changed without detection. This means that no longer is it necessary to have a direct relationship with another party – if one party makes a commitment or records an event such as a transfer, there is an immutable record visible to all relevant parties.



5. Efficient operations

Automation and cognitive capabilities delivering multi-dimensional value

In a flattening market with new competition from low-cost, innovative platform-only entrants to the market, FSI companies are under pressure to reduce their operating costs – the key to reducing both cost to income ratio and management expense ratio.

Opportunities exist for organisations to leverage digital technologies and cloud-based platforms to streamline operational systems, liberate and utilise data for smarter services, and harness process automation to reduce staff overhead.

Embrace automation to streamline business operations

All organisations are seeking to remove costs and friction from their operations. Beyond that, they seek to create agility and flexibility internally. The adoption of data-driven, software-controlled automation is a means to achieve these ends.

Manual and semi-manual business processes, in particular, are huge contributors to labour costs. They are also, typically, some of the most painful and difficult areas to change – often the resistance to changing an existing process is a bigger barrier to agility than any financial commitment required.

Various forms of business process automation can be adopted to address different automation needs. Whether it be robotic process automation to address defined, repetitive tasks, or business process orchestration tools to manage more complex, long-running processes, the use of automation tools can significantly reduce operating costs.

Improve business performance through real-time analytics

Analytics has a clear role to play in the data-driven FSI organisation, enabling patterns to be identified that provide insight into what is happening in the business in real time, and what action needs to be taken.

Customer retention is a simple use case. If a customer has made complaints to a contact centre, flagged issues on social media and perhaps started transferring direct debits away from their account. Given the cost of customer acquisition, using data and smart analytics to reduce the loss of customers is a relatively simple way of improving the bottom line.

Liberate siloed data to drive business performance

Data is at the core of any effort to reduce operating costs – from bold new initiatives to efficiencies discovered from careful analysis of current operations.

With point-based solutions, data generated is often confined to the system where it has been created – data silos are common and data sharing, if it happens, is rare.

By moving to a modern big data (or data hub) platform, data is no longer confined to silos, but is exposed and available for analytics as it is generated – with appropriate sharing and privacy controls.

Liberating the flow of data is central to the digital FSI organisation. It permits data scientists to analyse the data and create information suitable for action and innovation.

Adopt cloud based infrastructure platforms to drive agility

FSI technology has traditionally been dominated by fragmented systems serving the needs of different departments separately. These privately hosted platforms can't easily be deployed and upgraded, thereby creating a barrier to rapid change. This model is failing to keep pace with the needs of the business.

Organisations costly on-premises hardware and inefficient siloed technologies are making way for streamlined, software-managed, hybrid cloud-based platforms.

These platforms empower organisations to optimise their resources and allow new initiatives to be scaled up or down in much faster timeframes than previously possible. A managed, hybrid-cloud platform cuts time assigned to the repetitive chores and complexities of resource provisioning, security and disaster recovery, freeing internal IT staff to work on more considered tasks.

How can we help?

- Our digital solution experts can work with you to automate your business processes. From the use of bots as part of the customer service interface through to process automation and robotic process automation, we can help you choose and implement the right solution for each circumstance.
- Our data and analytics experts are skilled in sourcing and integrating data then using it to provide real-time insights into the operations of your business.
- We can deliver traditional, big data and data hub solutions that will ingest, harmonise data from multiple sources, while ensuring that all data is curated, secured and able to be consumed in real-time through APIs and data visualisation.
- Fully managed and software-enabled Infrastructure Platforms – delivered either on premise or in protected cloud environments – will provide you with the flexibility you need to respond to changing business dynamics.

LET US HELP YOU WITH YOUR FOCUS PRIORITIES.



Today, the FSI sector is experiencing an era of unprecedented change and the ability to plan, execute or react swiftly – with decisions based on accurate and easily accessible data – has never been more important.

This has particular relevance across five key emerging demand themes that are shaping the industry of tomorrow – regulatory compliance, cyber resilience, customer engagement, open ecosystems and operational efficiency.

An invitation to co-innovate – An invitation to co-innovate – **Join us in our Client Innovation Centre (CIC)** in Darling Park, Sydney, Australia, where we explore the transformation themes creating new purpose and value for business and society into the future and create ‘art of the possible’ uses cases.

Across 2019, these will include ‘AI Serving Humanity’, ‘**The Future of Data and Trust**’, ‘**My Digital Twin**’, ‘**Bio-connectedness**’, ‘**Life in Digital Cities**’ and ‘**The 2020 Sports Fan**’. Through these future-focused themes, we introduce technology innovations from our partners and the global NTT Group, including advanced and potentially game-changing research from NTT R&D labs. We engage using a model that is business focused bringing your business and technology stakeholders together to create a co-innovation agenda. The aim is to help you accelerate your transformation, differentiate yourself in the market and in some cases, co-create new solutions for commercialization.

The CIC facility and our cohort of innovation practitioners are dedicated to your strategic agenda.

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