Predictions 2016: Financial Services Execs Wake Up To Digital Transformation

The Eight Digital Shifts To Expect In Retail Financial Services In 2016

by Peter Wannemacher
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Why Read This Brief

As digital engagement increases among financial services customers, eBusiness and channel strategy professionals at banks, wealth managers, insurers, and card issuers are pushing toward true digital business transformation. They're shifting their attention from merely what they need to offer customers to how to deliver more value to customers more quickly. This brief highlights the eight most significant changes coming to retail financial services in 2016 that digital teams at financial providers must understand to effectively win, serve, and retain those customers.

Key Takeaways

Leading Firms Use APIs To Build Dynamic Ecosystems Of Value
In 2016, digital executives at financial firms will increase their focus on APIs. Financial firms have been relatively slow to take advantage of APIs, but this will change in 2016. APIs won't be restricted to providing services to clients and partners: They will enable firms to build dynamic ecosystems of value, reconnecting a fragmented value chain.

Digital Teams Increase Their Use Of Analytics And Journey Mapping
For eBusiness teams and their partners to be successful, everyone must work from a common understanding of the customer. This will lead to a big increase in the use of customer journey mapping in 2016. In addition, digital leaders will collaborate more closely with internal and external analytics teams.

Customers Demand Personalization -- Without Realizing It
Customers are growing accustomed to companies anticipating their needs and offering what they're looking for -- sometimes before they even know what that is. In 2016, digital disruptors like Digit, Mondo, and Moven will show incumbents how far personalization can be pushed in financial services. Customers will respond to brands that offer personalized advice and recommendations.

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How Digital Financial Services Will Change In 2016

Digital technologies have transformed retail financial services. Customers and prospects have higher expectations than ever when it comes to online, mobile, and tablet experiences. And those digital technologies are changing the nature and effectiveness of branches, agents, and advisors, while emerging touchpoints such as wearables, smart TVs, and car apps promise to shift consumers' expectations further.[1]

To win, serve, and retain customers, eBusiness and channel strategy professionals at financial services providers must understand what will come next, both for their customers and from their competitors:

› **APIs and open platforms take center stage.** APIs are perhaps the most important technology in digital business design.[2] Done right, APIs open new angles for business strategy.[3] Financial services providers have been relatively slow to recognize and act on APIs as an opportunity to transform their businesses and, ultimately, better win, serve, and retain customers. This will change in 2016, as digital business executives collaborate with CIOs to champion investment in internal, B2B, and product APIs.[4] APIs won't only help firms increase agility and provide services to clients and partners: They will enable financial firms to build dynamic ecosystems of value, reconnecting a fragmented value chain.[5] This will be part of a wider, and longer-term, shift to open platforms as the foundation of digital financial services strategy.[6]

› **Executives move resources to back-end integration.** Over the past three years, many large financial providers have upgraded their front-end digital experiences, redesigning their apps and websites to improve both usability and functionality.[7] But digital business transformation will require bigger changes involving back-end systems and platforms such as enterprise software, CRM systems, sales, and categorization engines.[8] The next 12 months will see financial institutions shift budgets and employees to back-end initiatives to keep pace with the demands of digital engagement. Digital business executives must partner with their CIOs to drive the back-end

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integration needed to enable cross-channel interactions and next-generation digital experiences for customers and prospects.[9] For example, smart insurers are not just modernizing their core applications but also upgrading their agency management systems and agent portals.[10]

› **Real time goes prime time.** Although they will not use the phrase "real time," 2016 will see a majority of mobile customers simply expect real-time financial information and transactions. As one bank executive told us, "It won't be long before customers find it absolutely preposterous that it takes two to three days for their money to get where they want it to go." Disruptors like Venmo in the US and Singapore's fastacash offer immediate, real-time value transfers between consumers. Not to be outdone, established firms like BBVA Compass in the US — in partnership with Dwolla — are enabling real-time payments and money movement.[11] The shift to real-time will go beyond transactions: Real-time information will enable context-based digital offerings.[12] For example, combining real-time data with predictive analytics will enable a firm to offer a personalized auto loan or insurance policy to a customer about to start a test drive at a car dealership.[13]

› **Biometrics authentication becomes commonplace.** The coming year will see biometrics move from an emerging mechanism for security and authentication to an intrinsic part of everyday financial services.[14] Many insurers already have biometric authentication as a feature on their road map, aiming to simplify the digital "front door" for customers.[15] The most common biometrics will involve Apple's Touch ID along with voice and facial recognition. US financial provider USAA already offers three different biometric log-in options for mobile customers. First Internet Bank, meanwhile, will use technology that captures an image of the eye and identifies the unique vein pattern of a customer. Biometrics will become more widespread in 2016. Visa, for example, will be rolling out a biometrics specification that integrates with EMV chip solutions in an effort to drive global standards.[16]

› **Firms combine human advisors with digital touchpoints to sell financial products.** Digital teams will continue to blend physical and digital touchpoints together to deliver better customer experiences. This will include augmented reality tools on mobile apps, guided selling tools on digital in-branch devices, and onboarding with human guidance provided via two-way video. US wealth manager Vanguard's Personal Advisor already blends human advisors and digital technologies to deliver tailored advice and investment management at lower cost.[17] More firms will follow the lead of insurers like State Farm's Next Door and Mass Mutual's Society Of Grown Ups by opening up physical storefronts to offer financial education, promote the value of financial products, and provide continuous market research.

› **Customers demand personalization — without realizing they are demanding it.** Customers are growing accustomed to companies anticipating their needs and offering what they're looking for — sometimes before they even know what that is. Retailers and travel companies are using predictive tools and algorithms to exceed expectations with highly personalized experiences.[18] As the head of digital at one financial provider put it, "Gone are the days when someone landing on a website or opening an app expected to be treated in a one-size-fits-all way." Digital teams at financial firms have been slow to reengineer websites and apps to enable highly personalized digital experiences. In 2016, digital disruptors like Digit, Mondo, and Moven will show incumbents how far personalization can be pushed in financial services. Customers will respond to brands that use context and predictive tools to offer personalized advice and recommendations.[19]

- **Digital leaders make a big push toward better use of analytics.** Across industries, the lines between customer experience, eBusiness, business technology (BT) and other roles are blurring. The result? For each role — and the business as a whole — to be successful, everyone must be customer obsessed and work from a common understanding of the customer. This will lead to a big increase in the use of personas and customer journey mapping in 2016.[20] Digital business leaders will collaborate more closely with internal and external analytics teams. One bank plans to instrument its apps and websites "more than we ever have before" to enable better — and more actionable — measurement of their digital initiatives.

- **The fintech bubble bursts — but digital disruption will only increase.** In the past five years, more than $12 billion in funding has flowed into the fintech market.[21] In the past year alone, the number of fintech "unicorns" — startups valued at $1 billion or more — has more than tripled from 11 to 36.[22] There's no question that fintech is hot, but Forrester predicts that 2016 will reveal it to be too hot as many fintech firms prove to be overvalued.[23] We won't see the complete collapse of the fintech market — this is no dot-com redux — but rather a shakeout of winners and losers. Expect to see a sharp rise in the number of failures and opportunistic acquisitions of struggling startups by established firms. We've seen this in other tech markets — a period we call the "havoc" stage.[24] But overvalued fintech startups won't slow or diminish the impact of digital disruption, nor will they reduce the need for digital teams to innovate to meet customers' rising expectations.

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Endnotes

[1] We do not predict that these emerging technologies will reshape digital financial services within the 2016 calendar year. Rather, these emerging touchpoints — and customers' rising expectations around digital experiences — are one factor that is pushing digital executives at financial providers to innovate and invest in digital business transformation. The predictions laid out in this report are largely about the steps that executives will take to prepare for the future of digital financial services.

[2] Digital transformation requires rapid business reconfiguration around new business strategies to create new value for existing customers and to reach whole new markets. Existing and new business assets and capabilities must be combined into new value chains involving existing and new customers, products, partners, influencers, and competitors. APIs are reframing business strategies and creating new opportunities for executives at financial services providers and companies in all industries. For more information, see the "How APIs Reframe Business Strategy" Forrester report.

[3] Neither eBusiness nor technology management teams can build a successful API strategy in isolation — collaboration is key. For more information, see the "Brief: Four Ways APIs Are Changing Your Business" Forrester report.

[4] This dramatically increased investment in APIs will require eBusiness and channel strategy leaders to partner with their application development and delivery (AD&D) peers inside their organizations. This is already evident among leading financial providers: Fidor Bank, for example, exposes its account and payment services to its corporate clients for a monthly fee. See the "Use APIs And Components To Prepare For The Banking Industry's Increasing Pace" Forrester report.

Internal APIs will also play an increased role: To deal with complex webs of legacy systems that took years to build and now slow business change, organizations will use internal APIs to increase agility by insulating customer experiences and business processes from underlying technology constraints. For more information, see the "Brief: Four Ways APIs Are Changing Your Business" Forrester report.

[5] Digital business executives at financial services firms are coming to terms with the realities of digital disruption. Many are exploring the opportunities of partnering with disruptors. For more information, see the "Disruptors Belong In Your Digital Ecosystem" Forrester report.

[6] There is also a regulatory force to this shift toward APIs. In Europe, for example, the UK government is planning an Open Banking API standard, and the Payment Services Directive 2 (PSD2) includes an Access to Accounts (XS2A) rule that will require banks enable access via APIs.

[7] Make no mistake, these front-end enhancements have been smart moves on the part of digital executives at financial firms. The digital team at CIBC has redesigned major aspects of the firm's secure website, smartphone apps, and mobile site and found success as a result. CIBC has earned the highest overall scores among Canadian banks in Forrester's online banking and mobile banking benchmarks. For more information, see the "2014 Canadian Online Banking Functionality Benchmark" Forrester report and see the "2015 Canadian Mobile Banking Functionality Benchmark" Forrester report.

[8] As digital touchpoints have proliferated, the responsibilities of the eBusiness leader have grown to include mobile, customer service, in-branch technology, and more. But treating every new digital touchpoint as another project generates organizational and technical chaos. This chaos intensifies the operational challenge: that your organization's structures, technology, and metrics are siloed into functional building blocks, each striving for internal efficiency and fighting for scarce resources. The "digital bolt-on" way of thinking makes it much harder to respond to change in agile ways. Your technology management teams, spread thin chasing projects to maximize the prospects of one department or another, are in a downward spiral. See the "The Digital Business Imperative" Forrester report.

[9] eBusiness executives must collaborate with their firms' technology teams to champion a BT agenda and transform the way they design, develop, and deliver innovation by adopting approaches like Agile development and DevOps. In this report, which is the tools and technology section of the digital business transformation playbook, we show how eBusiness professionals can play a critical role in helping their CIOs drive a modern, agile, and customer-focused approach to technology management in their firms. See the "Accelerate Digital Business With A BT Agenda" Forrester report.

[10] Insurance, bank, and wealth management executives will look to rewire or replace legacy systems starting in 2016.

[11] Dwolla has created a new payments network that banks like BBVA Compass have plugged into via Dwolla's FiSync API to offer their customers real-time money transfers and other related services. Similar propositions include MasterCard Send, Fiserv's Instant Payments — used by U.S. Bank — and Japan's Zengin System. See the "Disruptors Belong In Your Digital Ecosystem" Forrester report.

[12] This will also encompass other real-time interactions: For example, more financial institutions will enable real-time error notifications during task flows on websites and apps. A customer or prospect who enters something invalid in a form field will be immediately notified and offered help, rather than discovering the issue only after he or she is ready to move to the next step in the process.

[13] Forrester has spoken with multiple financial providers piloting or experimenting with just this type of offering. These pilots will expand — and new beta testing will be rolled out — in 2016. It will be years before smaller, regional providers roll out this type of offering, but we will see more initiatives like this in 2016.

[14] Biometric authentication covers a wide range of credentials such as fingerprint, voice, facial recognition, and other physiological or behavioral identifiers. With ubiquitous smartphones providing a convenient and efficient method of collecting multiple types of biometric data, biometric authentication will become mainstream in a couple of years. See the "Brief: Digital Disruption Brews In Financial Data, Digital Identity, And Payments" Forrester report.

[15] Forrester spoke with digital executives at numerous insurers during the research for our 2014 US Mobile Auto Insurance Mobile Functionality Benchmark and other recent reports. For more information, see the "2014 US Mobile Auto Insurance Functionality Benchmark" Forrester report.

[16] The idea behind Visa's initiative is to develop biometrics specifications that work with the EMV (Europay, MasterCard, Visa) chip standard — all in an effort to get closer to open, globally interoperable solutions. Absa Bank in South Africa will be the first firm to try out Visa's technology offering. Source: "South Africa's Absa Bank to be first to trial new Visa specification for fingerprint validation at chip ATMs," Business Wire press release, September 15, 2015 (http://www.businesswire.com/news/home/20150915005607/en/Visa-Introduces-EMV-Chip-based-Biometrics#.VhLNJPlVikp).

[17] On May 5, 2015, Vanguard announced Personal Advisor Services, a hybrid offering that is part automated advice platform and part human financial advisor. Vanguard's Personal Advisor Services exploits digital technology to bring personal guidance from a financial advisor for an annual fee of just 0.30% of a client's managed assets. See the "Quick Take: Vanguard's Personal Advisor Will Transform The Financial Advice Business" Forrester report.

[18] Although the two terms are routinely used synonymously, personalization — a company creating experiences and offerings uniquely tailored to customer — is not the same as customization — a company letting the customer tailor his or her own experience.

[19] In many ways, this next generation of personalized digital experiences will be an extension of Forrester calls context: Everything you know about the consumer at the point of engagement. Forrester has written extensively about the power of harnessing context to drive success in mobile. For more information, see the "The Mobile Banking Imperative" Forrester report.

[20] Companies use journey maps for both tactical and strategic purposes. But they struggle to get the best results when they don't have the right insights, skills, and tools. Consultancies, agencies, user experience specialists, and software providers rush onto the scene with services and tools that help companies get the most out of their journey mapping efforts. But there is no one-size-fits-all. For more information, see the "Getting Help With Customer Journey Maps" Forrester report.

[21] Accenture, as reported in the Financial Services Club Blog by Chris Skinner. Source: Chris Skinner, "Is the Fintech bubble about to burst?" Financial Services Club Blog, March 6, 2015 (http://thefinanser.co.uk/fsclub/2015/03/is-the-fintech-bubble-about-to-burst.html).

[22] Finovate, as reported on BankInnovation.net. Source: Paul Schaus, "Fintech Trends Signal Imminent Disruption," Bank Innovation, August 6, 2015 (http://bankinnovation.net/2015/08/fintech-trends-signal-imminent-disruption/).

[23] Mariano Belinky, a partner at Santander InnoVentures has seen investors "almost blindly investing in every fintech company out there." Belinky notes that when a bubble like this starts to build, "the not-so-smart money tends to follow." Source: Penny Crosman, "Is The Fintech Sector Overheating?" American Banker, September 28, 2015 (http://www.americanbanker.com/news/bank-technology/is-the-fintech-sector-overheating-1076982-1.html).

[24] While technology markets are very diverse, Forrester's analysis reveals that they evolve in three predictable phases: pivot, havoc, and stability. Pivots are disruptive innovations that reset a market. They occur when, based on a disruptive change in technology, vendors offer new products or services that incumbent firms never offered or new ways that products or services are delivered to a market. Pivots occur during the creation and survival phases of the TechRadar™ timeline. Havoc occurs after a pivot has begun to play itself out. This transition is typically marked by a tumultuous set of acquisitions and mergers as both startups and incumbent players reposition themselves. Because many mergers and acquisitions fail, this is a make-or-break phase for players in a market. For more information, see the "The Arc Of Technology Markets" Forrester report.

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