

Nuxeo 2020 Financial Services Research Report

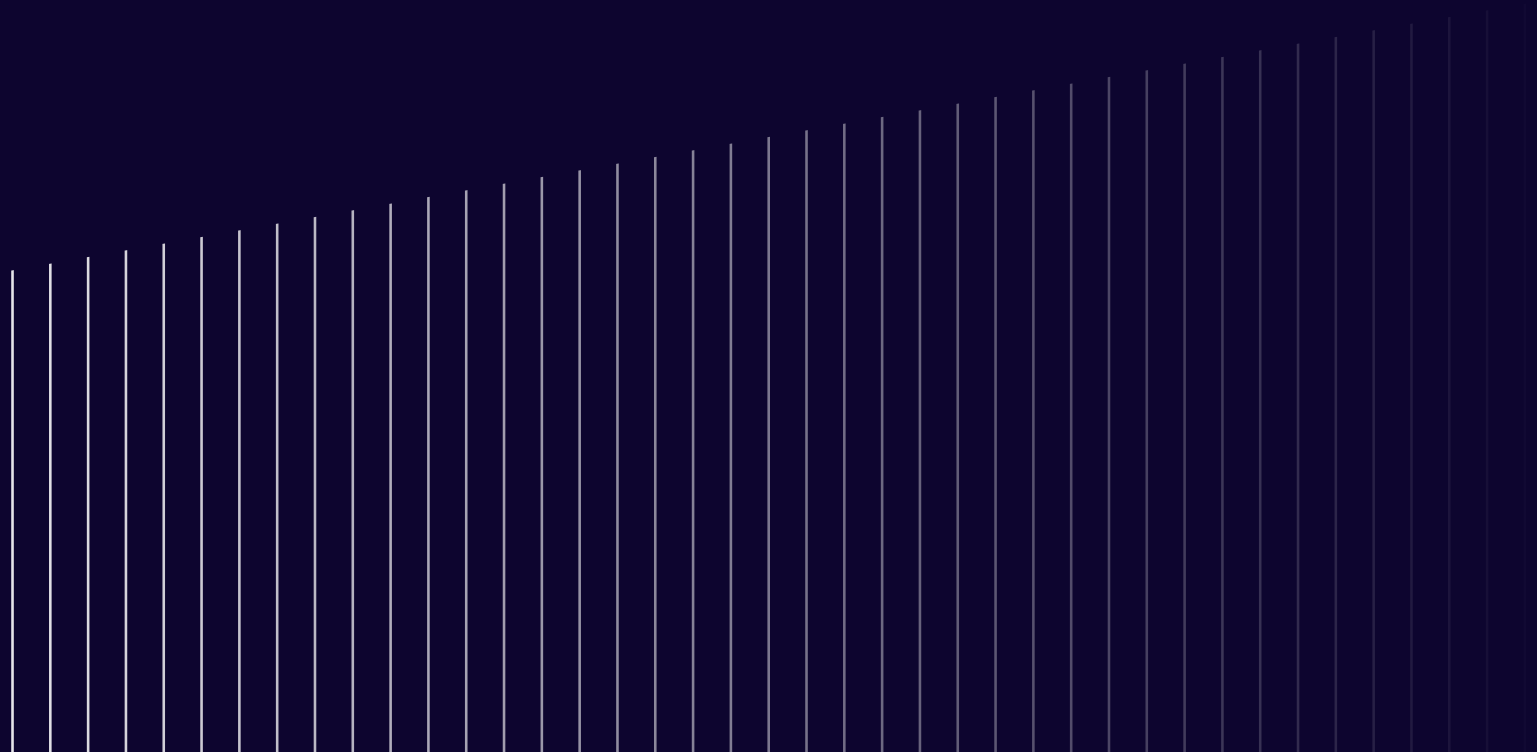
Information, Intelligence & Innovation

How UK Financial
Services is Shaping Up
for 2020

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Nuxeo 2020 Financial Services Research Report

Exclusive new Nuxeo research examines the challenges and opportunities facing UK banks and financial services providers in 2020, how they are preparing, and where the industry is heading next.



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Information, Intelligence & Innovation: How UK Financial Services is Shaping Up for 2020

Foreword

by **Mike Bagguley**, former COO of Barclays International

As 2019 gives way to 2020, traditional financial institutions find themselves at a crossroads. As ever, there is much to detract banks' attention from the competitively critical imperative of digital transformation, and Nuxeo's new industry research makes very clear that this is still the case.

The findings reveal that people in FS are typically working across nine or more different IT systems, and that they are still mired in the age-old issue of regulatory conformance (when in fact no major requirements have been introduced for years). Data management also looms large as a negative and there is the significant distraction that is Brexit, which ranks as a high concern for most respondents.

What all of this confirms is that digital transformation is not receiving the focus it needs. My view would be that, however much of a priority that FS providers say this is for them, in reality this ends up much lower down the agenda. Yet, if these institutions want to survive and prosper, and adapt to the evolving needs of customers, they cannot afford to continue at the same half-hearted pace that most would have to admit to.

As the industry continues to be disrupted from all sides, established financial organisations need to harness the qualities that make their propositions superior. These include their long-standing customer relationships, their rich historical transaction records, and so on - which they must capitalise on now to deliver something powerful and meaningful to customers.

Reading the survey, existing technology and internal process complexity is making that difficult. FS providers should go out and source what they need and tackle the legacy burden separately. A focus on outcomes and processes to drive the business will allow the outsourcing of tech work. This allows the firms to unwind legacy platforms to deliver enhanced profitability while delivering leading services to customers.

So my advice to the financial services industry in 2020 is to not let legacy complexity, residual compliance challenges, or whatever happens next with Brexit, be an excuse not to innovate. Simply put, banks cannot afford to remain stuck where they are today. With every month, every year that passes, the risk of inertia – of being left behind - grows exponentially. So distil what needs to be done as a competitive priority, and go out and get help.



Mike Bagguley, a respected financial markets industry leader and a board advisor to Capital Markets data automation specialist Inforalgo, was formerly COO at Barclays International.

Introduction

It is no secret that the UK financial services (FS) industry is currently in a great state of flux. Persistent uncertainty over Brexit has been compounded by continued disruption in the market, which sees challenger providers and even Big Tech brands reinventing services, using the latest technology and taking advantage of open banking.

In the meantime, soaring customer expectations are putting growing pressure on banks and other FS providers to create simpler, more intuitive and customised products and experiences. Those that fail to respond to these evolving needs risk losing customers, especially now that it's easier than ever for consumers to switch accounts and providers.

Increasing regulatory rigour is a huge challenge too, with constantly growing compliance mandates that require FS providers to be meticulous about how they manage and secure information, and how they use this information to deliver related services to customers. The duty to demonstrate appropriate advice and responsible lending, and that robust security and data protection measures are in place, is proving a considerable undertaking, potentially distracting banks from their vision for future customer experiences.

But there are exciting opportunities, too. As FS providers rebalance their channels, making more of digital technologies and shifting the emphasis away from cash and from physical branch-based services, they have a chance to do things very differently. Digital banking paves the way for greater service continuity, making it easier for banks to capture and analyse data (with consumers' permission), reduce repetition of information collection, and deliver more of what customers want. By innovating with richer and more convenient online and mobile banking experiences, and by using technology to deliver smarter and slicker backend operations, FS providers should be able to roll out and execute services more cost-efficiently too.

In the context of all of these developments, Nuxeo conducted comprehensive new research into the challenges, concerns and opportunities facing UK FS providers, as perceived by those working inside the industry. The study, which predicts market conditions in 2020, was conducted independently by Censuswide between 27 September and 02 October 2019, among 501 respondents working in UK banking and finance.

This report drills down into the main findings, spanning FS providers' concerns and hopes for the year ahead, and draws some practical conclusions about where FS organisations should focus their attention in 2020.

FS challenges in 2020: key findings

One of the most striking findings overall is how burdened and worried those working in the UK FS industry have become.

Although the market is at a major crossroads in its history, with much exciting potential for transforming the customer experience and being creative with new services, respondents highlight some significant barriers.

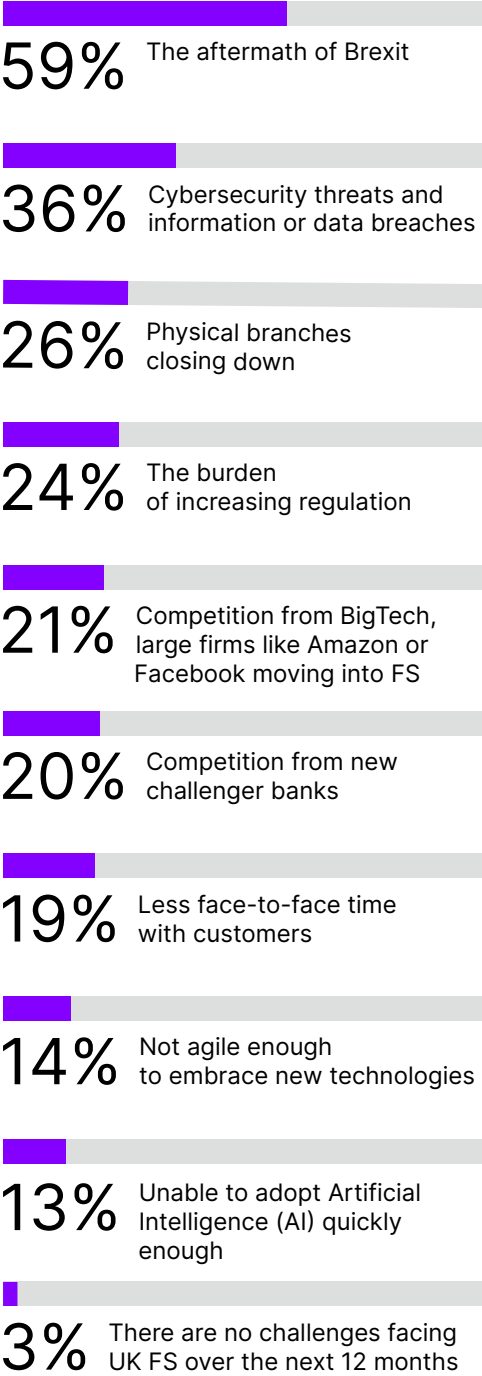
These not only stand in their way of exploiting new technology and associated opportunities; they also command a great deal of organisations' time, energy and budget.

Rising regulatory requirements and the lengthening shadow of Brexit have compounded existing concerns about cumbersome legacy processes and IT systems, which hamper FS providers' agility and ability to innovate with new products, services and customer experiences.

FS institutions know they need to take bold action to transform their proposition and stay relevant in the modern market, but with the uncertain aftermath of Brexit looming and regulators breathing down their necks, many feel now is not the time to be taking what they perceive to be strategic risks - especially if these involve ripping out long-standing systems and radically overhauling current processes.

Over half of all respondents (59 per cent) cite the aftermath of Brexit as likely to pose their biggest challenge in 2020 - far more than are primarily worried about matters of cyber-security/data breaches, the second most commonly-cited top challenge mentioned by just over a third (36 per cent) of FS insiders.

What are the greatest challenges facing UK FS over the next 12 months?



Branch closures, the regulatory burden and rising competition from new challenger service providers as well as Big Tech firms like Amazon and Facebook, feature significantly too, cited as ‘biggest challenges’ for between a fifth and a quarter of respondents.

Beneath these high-level concerns, however, the research revealed clashes between strategic priorities.

Despite almost two-thirds of respondents saying they believe their organisation is committed to innovation, almost six in 10 FS workers believe that the various challenges collectively are leaving them vulnerable to losing customers.

That is, their competitive edge is under threat because there are so many other logistical priorities tying up their time and resources, and because they can’t move quickly enough to realise new innovation:

- **More than two-thirds** of respondents say increased regulation is affecting their day-to-day activities;
- **Almost three-quarters** report that their current systems are not fully connected, in a way that allows information to be shared across them;
- **More than four in 10** point to their organisations’ inability to adopt artificial intelligence-based technology quickly enough as affecting their day-to-day activities.

Losing customers

The UK's FS regulator, the Financial Conduct Authority (FCA), has made it steadily easier for consumers to switch from one bank or FS provider to another.

Not just logistically by allowing customers to transfer existing direct debits and standing orders, but also by mandating that banks are more transparent about their relative benefits, fees and so on, so that consumers can make informed comparisons between similar services.

This, combined with the market shake-up – as a diverse range of additional FS players come onto the scene with fresh new service propositions – is threatening the customer loyalty that traditional banks have long depended upon.

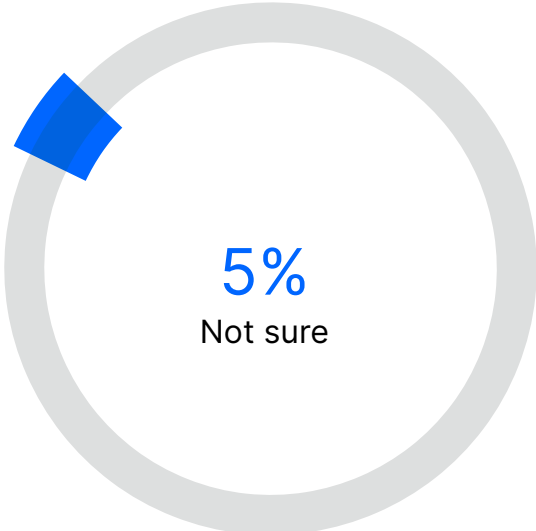
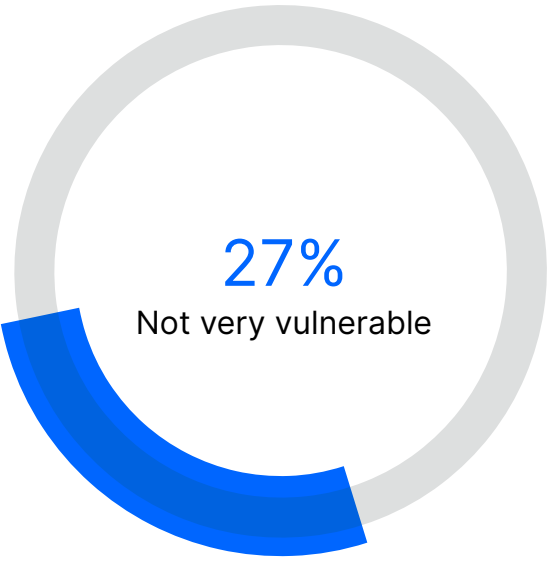
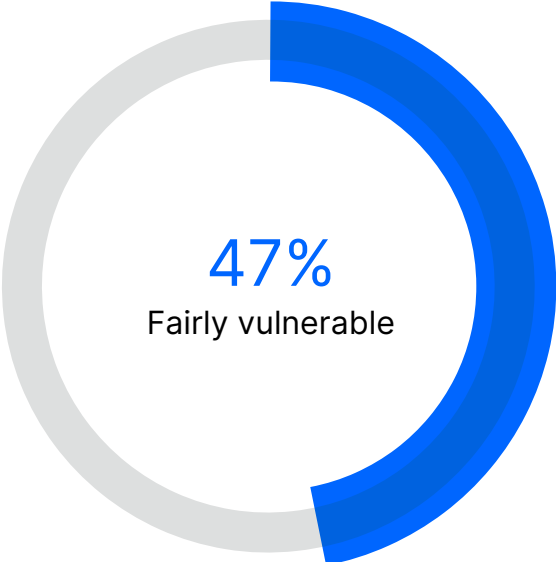
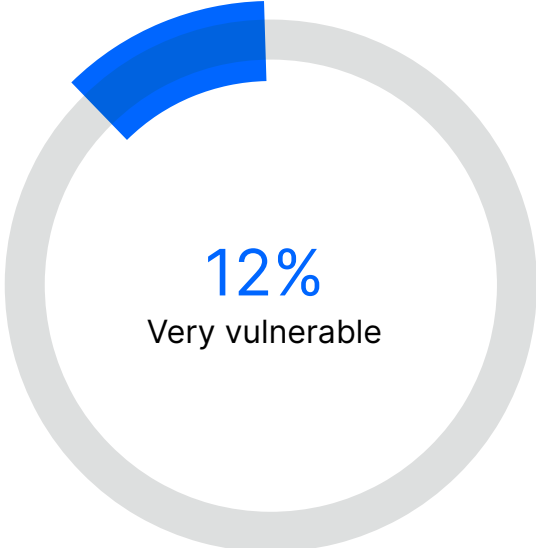
Challenger players (e.g. supermarket banks) have been winning over customers with low-cost, stripped-down services, while digital/mobile-first banks (e.g. Monzo) are impressing younger consumers with convenient new real-time savings/split-billing features and other functionality, available on demand via customer-centric apps.

The growing presence of Big Tech brands is a further threat, as the likes of Amazon and Facebook expand their own activities around customer payments and cryptocurrencies. (In our research, over a quarter of respondents cited the surge in new competition as the biggest challenge facing their organisation in 2020).

All of this is placing pressure on established banks to transform or reinvent themselves as a matter of competitive necessity.

The sense of urgency is clearly growing too. Nearly six in 10 of respondents fear their organisations is vulnerable to losing customers over the next 12 months. So raising the bar is something they cannot afford to delay.

How vulnerable is your organisation to losing customers over the next 12 months?



Loss of productivity

Inefficiency remains a massive issue for traditional FS organisations. Rafts of branch closures across most bank brands are a stark signal of institutions' need to bring their overheads under control so that they can compete more effectively with more nimble, digital-first banks.

Yet restructuring physical operations is doing little to address FS providers' productivity priorities, which include reaching lending decisions and rolling out new service innovations to customers more rapidly.

Digital tools, including AI-enabled aids for automating loan application processing, have much to offer banks here, and our research confirms that FS organisations are proactively looking to embrace these tools, if only they were in a better position to do so.

Whereas AI has been seen as a potential threat to jobs in recent years, opinions are moving on and AI's ability to make teams more efficient and free up their time for accounts that need more personalised attention is now seen as very attractive.

More than two-thirds of respondents say they believe AI has the potential to transform a number of FS practices and a similar proportion (64 per cent) say that using AI for mundane backend processes would free time to do more interesting work. (A more detailed analysis of AI-related findings is included below).

Information paralysis

One of the major threats to productivity is FS providers' inability to connect and organise all of the data they have at their disposal, so that they can use it as the basis for improved and new customer services.

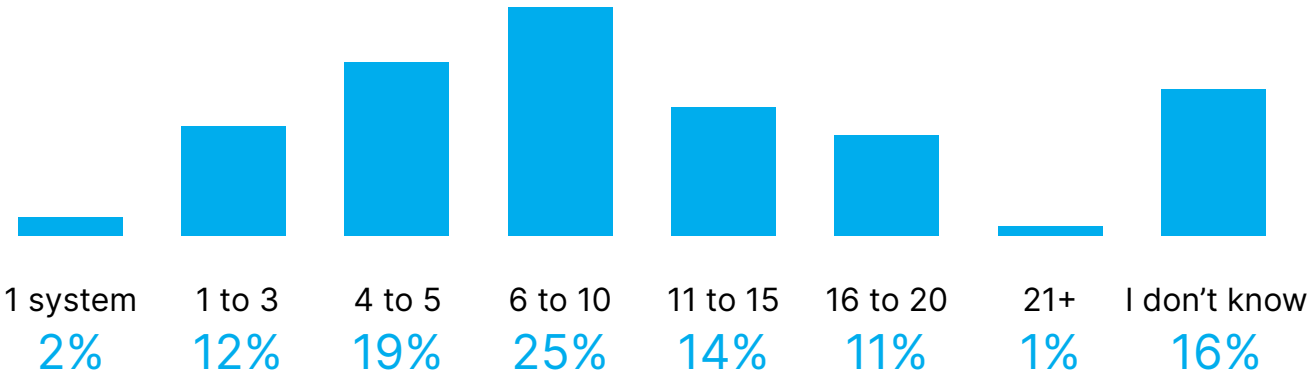
Compared to newer industry challengers, established banks and FS providers have far richer data going back decades or longer.

If institutions could tap into this considerable resource, it could be used to distil invaluable intelligence and insights into consumer trends, product performance and relative account profitability, as well as untapped opportunities for cross- and upselling.

Although organisations have all of the underlying information stored within their legacy systems, it is typically very difficult for teams to access, combine and cross-analyse this data.

This is because, too often, systems are unconnected, use incompatible data formats and feature considerable data duplication between applications.

How many different systems does your organisation store information on?



In our research, FS providers confirm that they are storing information and content across nine different systems on average.

And these systems tend to operate in silo: almost three-quarters of respondents say their organisation's systems are not fully connected with each other.

System users who need to access information as a regular part of their jobs can be spending up to an hour a day (52 minutes) searching for what they need, because it is not readily discoverable.

Given that this equates to four hours 20 minutes each week spent looking for information - per employee - the total time spent on search across an organisation over a year would be highly significant.

The most common reasons for this are that information is stored across multiple systems across the organisation (cited by 42 per cent); information is inconsistently, incorrectly or inadequately named (cited by 34 per cent); it is not possible to search across different systems (by 25 per cent); workers lack the right tools to find information efficiently (by 22 per cent); and they simply don't know where to look to find what they need (by 20 per cent).

Agility, innovation & AI

FS providers' desire to innovate, and their ability to do so, appear to be at odds.

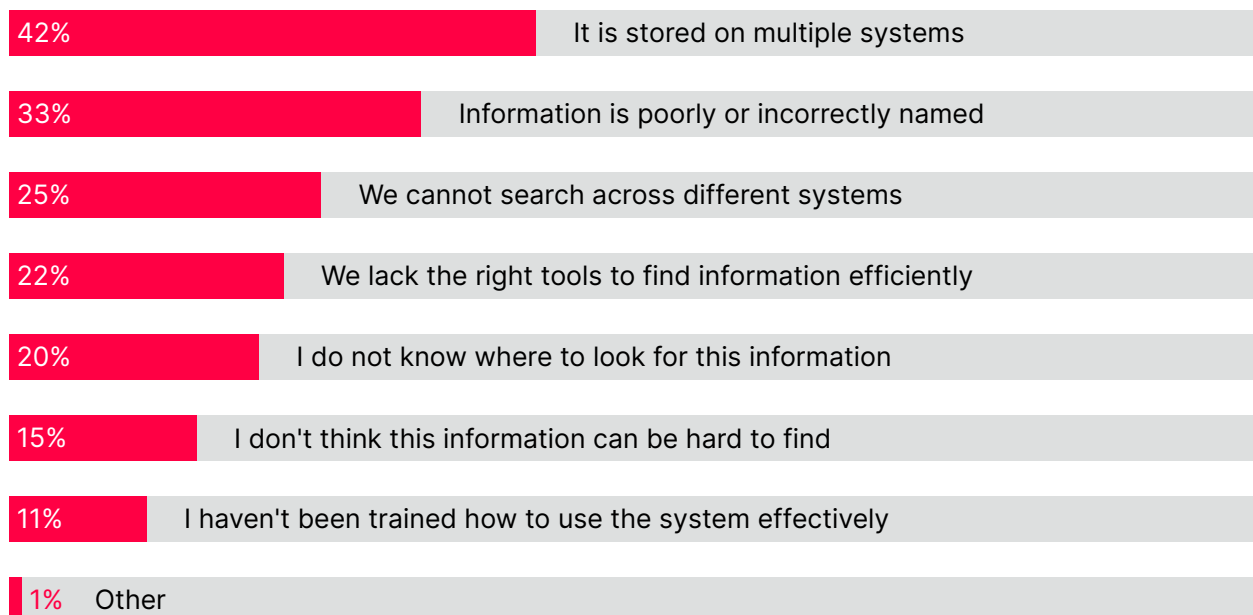
Although almost two-thirds of respondents claim their organisations are committed to innovation, and more than half (58 per cent) believe that firms which use AI in creative ways make for more attractive employers, almost half admit that there isn't enough collaboration on new idea development in their organisations.

More than half (58 per cent) say their employers lack the latest AI talent and expertise.

This suggests that, despite appreciating the potential of advanced technologies like AI - and in some cases already using them in pockets of the organisation - FS providers are not in a position to take developments to the next stage.

For now, most AI applications tend to centre predominantly around aiding content search and automating routine back-office processes, addressing specific operational pain points but without necessarily adding any value for customers.

Why is information so hard to find in your organisation?



Increased regulatory controls over data are merely adding to information complexity.

67 per cent of respondents say increased regulation is hampering their day-to-day work.

How is AI being used in your organisation?

	Already implemented	Is under consideration	Not in use and not been considered	Don't know
Chatbots	25%	31%	30%	14%
Improved customer service	34%	35%	17%	14%
Automating back office processes / backend tasks	33%	34%	19%	14%
Searching for content / information	29%	39%	16%	16%
Smart routing of incoming information	25%	32%	24%	19%
Addressing compliance requirements	32%	31%	20%	17%
Autotagging / automatic classification	23%	34%	23%	20%
Data analytics	41%	29%	15%	15%

Transforming customer service delivery is a key focus for AI ambitions, with more than one-third (34 per cent) of respondents saying their organisation is already trying out AI in this context.

Chatbots, often used to improve the customer experience, are being used by one-quarter, with a further 31 per cent currently under consideration.

Meanwhile 41 per cent are already using AI-based capabilities for some form of data analysis, suggesting that FS providers are attuned to the need to target their activities more strategically.

Something needs to be done to bridge FS providers' visions and today's reality. In the research, 13 per cent of respondents even cited their organisation's inability to adopt AI quickly enough as one of the main challenges facing UK FS in 2020.

A lack of AI talent and expertise was also identified. Poor connections between, and visibility across diverse systems is preventing easy data access and use, while the lack of a modern collaborative culture and relevant skills is curbing FS providers' ability to innovate to the degree they need to, to compete in the digital banking age.

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Conclusion

While the UK FS industry clearly has a great deal on its plate, business strategies appear to be pointing in the right direction, confirming that organisation leaders understand the competitive imperative to transform their operations and drive the innovation agenda.

With Brexit still bearing down on the sector, and intense regulatory demands adding to everyday challenges and complexity, FS providers now need a practical path towards their higher goals which will enable them to deliver something to customers sooner rather than later.

Certainly, wholesale digital transformation can feel overwhelming and too undefined in scope, yet banks and other financial institutions cannot afford to put off their innovation agenda for another year. A more gradual migration path from the 'old' world to the 'new' would seem to be the answer then: a managed modernisation journey, which addresses the most acute pain points and delivers quick wins, without incurring new risk or detracting from the other critical work that needs to be done in 2020.

Focusing on the customer; keeping staff engaged and equipped with modern skills and tools; delivering innovative products and services; and embracing the technologies that make all of this possible - while containing cost and risk - will need to be central to FS providers' plans for 2020.

That's if they want to ensure that they retain and grow market share by staying relevant and competitive, and delivering more of the services and experiences that modern customers want.

About Nuxeo

Nuxeo, developer of the leading Content Services Platform, is reinventing enterprise content management (ECM) and digital asset management (DAM).

Nuxeo is fundamentally changing how people work with data and content to realise new value from digital information. Its cloud-native platform has been deployed by large enterprises, mid-sized businesses, and government agencies worldwide.

Customers like Verizon, Capital One, Electronic Arts, and the CVS have used Nuxeo's technology to transform the way they do business.

Founded in 2008, the company is based in New York with offices across the US, Europe and Asia.

Learn more at www.nuxeo.com

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