



WHITE PAPER

2019 FINANCIAL SERVICES TRENDS & PREDICTIONS

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2019 Financial Services Trend Predictions

The turn of the year offers a perfect opportunity to review the past 12 months and to anticipate what might happen in the year ahead. In this white paper we reflect on the past year for the global financial institution banking and payments sector, and offer some predictions of what we expect lies ahead of us in 2019.

Where We Stand Today

Financial institutions are getting more than comfortable partnering with, and in many ways acting like fintechs. More and more we see banks digitizing processes, leveraging and making decisions based on data and analytics, and focusing on consumer experiences that extend beyond web and mobile devices, and doing so at agile speeds by adopting new delivery cultures.

Financial institutions have learned that to compete with an ever-growing group of competitors, and to maintain relevancy and market share, they need to be more strategically aware and technologically advanced to be able to respond to consumer expectations. As such there is a keen focus on core modernization, consumer channel innovation, and business process automation and digitization as banks strive to become fully digital.

What's Ahead?

We see banks' efforts regarding innovation only increasing in 2019, as fintechs, tech giants, and even regulators revolutionize and transform the financial services landscape. Ultimately, the consumer will be front and center as drivers for FIs to continue to accelerate their investments in innovation and digital enhancements.

Following are key trends that we foresee influencing banking investments and initiatives in 2019:

1. The Cavalcade of Direct Bank Launches Will Soar

Direct banks have become a popular means of driving deposit growth to underpin lending, and to meet customers' increasingly demanding expectations for an on-demand, digital and mobile banking experience. Despite the surge in direct banks over the last two years, this trend is still in its infancy – particularly as financial institutions continue to battle the soaring costs of deposits in a rising interest rate environment. The concept of direct banking – an online and mobile-only bank – delivers serious bottom-line benefits for those with a well-defined strategy. Consider these five key facts about what direct banks can offer, and why they've become so prevalent:

- Direct Banks Fuel Deposit Growth
- Direct Banks Put Customers Front and Center
- Direct Banks Don't Have to Cause Channel Conflict
- Direct Banks Support Financial Inclusion
- Direct Banks Can Expedite Speed to Market

The trend of Direct Bank launches¹ will proliferate in 2019 and carry forward into 2020. This applies across the board – inclusive of neobanks, de novo banks, challengers, and established FIs (e.g., rebranding with market segment/differentiation as the goal, or simply using direct banking as a proving ground of experience/technology/culture change).

Read More: [5 Reasons Why Direct Banks Are the Next Big Thing in Banking](#)



¹ <https://www.finextra.com/pressarticle/68160/new-us-hybrid-digital-bank-purepoint-financial-targets-savers-and>

<https://www.businesswire.com/news/home/20180710005540/en/Citizens-Financial-Group-Launches-Direct-to-Consumer-Digital-Bank>

2. Core Cloud Banking Will Parade Down Main Street, Front Street, High Street, Hauptstraße and more

For many years banks have used the cloud for non-critical systems, such as email, customer relationship management, and application development. However, adoption for core banking systems had been stymied due to concerns over cloud security, regulations and the transformational effort to migrate to a cloud deployment. This tide has turned, with bank executives and IT teams beginning to fully embrace cloud technology/deployments thanks to advances and improvements such as:

- Growing popularity and success of Direct Bank launches
- Continued cloud technology improvements
- Maturing “lessons learned” by cloud provider giants such as AWS and Microsoft Azure
- Bank regulators have a better understanding of cloud information security’s advanced capabilities
- Bank regulators recognizing the tremendous sustainable benefits of cloud deployments
- Mounting pressures on the FIs to keep pace with ever increasing customer expectations amidst tighter operating margins and stiff competition from new entrants
- Ability of core solution providers to deliver cloud-native core banking software solutions

With growing announcements from the likes of Capital One², NAB³ and DBS⁴ 2019 will see more and more nationally-recognized financial institutions committing to and migrating to core cloud production operating models.

Read More: [Cloud-Enabled Core Banking: Why Now is the Right Time to Act](#)

3. Conversational Banking Will Become More Articulate

As digital devices became an everyday banking channel for customers, and with 64% of individuals preferring messaging as the form of contact⁵, financial institutions have been challenged to provide mass personalization and engagement interactions that the big technology (Big Tech) companies such as Amazon, Facebook, and Apple provide to their customers. Until banks can provide these hyper-personalized experiences and engaged interactions, customers will continue to go to the costly branches and cost centers – or worse yet, leave their primary banking institutions for the services provided by the fintech and Big Tech companies. The current digital experience that banks provide to their customers is very prescriptive and limited to one-way conversations or a few fledgling two-way conversation use cases. FIs have yet to effectively use advanced Artificial Intelligence (AI) and Machine Learning (ML) to engage their customers in fuller intelligent, interactive, two-way conversations that traditionally a human banker would do in a banking or contact center. By using AI/ML powered conversational banking to engage with their customers, banks can provision relevant two-way conversations that help recapture the leading position that they used to enjoy in their customers’ financial lives.

2019 will see a widening breadth of AI/ML conversational banking use case capabilities with a progression across the three primary Conversational Banking capability categories. The categories begin with **Awareness** use cases (for example, Check my account balances); continue with **Optimization** use cases (tasks such as Help me set up a Savings Goal); and ultimately support **Intelligence** use cases (complex processes such as Purchase a house).

Read More: [Conversational Banking: Is your future banker a voice-activated device or a messaging platform?](#)



² Capital One Press Release November 21, 2017 <http://press.capitalone.com/phoenix.zhtml?c=251626&p=irol-newsArticle&ID=2318173>

³ ZDNet “NAB looks at moving core banking to the public cloud” by Asha McLean December 11, 2018 <https://www.zdnet.com/article/nab-looks-at-moving-core-banking-to-the-cloud/>

⁴ CIO From IDG “DBS Bank’s Group CIO explains why its investing big in cloud” by Melissa Chua July 25, 2018 <https://www.cio-asia.com/article/3292438/cloud-computing/db-banks-bet-on-the-cloud.html>

⁵ The Financial Brand “How Chatbots and Voice Are Shaping The Future of Banking” By Jim Marous <https://thefinancialbrand.com/70484/voice-conversation-ai-banking-digital-trends/>

4. Banks Develop an Enterprise Data Strategy, take steps toward Data Science as a Service (DSaaS)

Determining an enterprise data strategy introduces new business and technology challenges for financial institutions. Whereas data was previously held and managed within distinct silos, an enterprise data strategy focuses on the convergence of all data sources, regardless of source or origin. This results in “crossovers” between existing organizational and technological boundaries. Organizational resistance to this sort of change is natural, and can be significant. Likewise, the technological aspects may seem daunting. It is essential to establish a good working foundation to explore enterprise data strategy to overcome hurdles such as:

- Access and Availability Latency
- Sheer Volume of Data – Internally and Externally Sourced
- Enterprise Data Management Span of Control
- Breadth & Depth of Data – Structured and Unstructured

For modern data strategies, the direction is for the technology to conform to the business, instead of the other way around. A business may not even know what data it wants until it needs it: The enterprise data strategy needs to allow for this reality.

In 2019 financial institutions must enhance their Data Lake strategies in terms of identifying more sources and/or types of data to incorporate, as well as working to identify further business use cases/ applications against which to leverage the cross-LOB, cross-source analytics.

5. Bank Executives & RegTech Move Beyond “Begrudged Necessity” and Embrace a Better Relationship

Approximately 750 global regulatory bodies are pushing over 2,500 compliance rule books; on average this gives rise to over 201 regulatory alerts daily⁶. FIs are committing 15% of their employees⁷ and 10% of their annual revenue⁸ toward this daunting effort. With annual industry projected spend of more than \$100 billion on topic, and the potential penalty costs for failing to adhere weighing in at a staggering \$342 billion to date⁹, clearly something has to give. Yes, RegTech has been around since the aftermath of the 2008 global financial crisis, but 2019 could represent a pivotal year in which bank executives shift their mindset and perspective views on RegTech.

Rather than simply seeing RegTech as a better automated cost takeout measure necessary to “deal with” the ever-building pressure of regulation and compliance, savvy bank executives will see the synergy and cumulative power that RegTech shares with many of their other strategic objectives. With the growing comfort level of C-Level executives to adopt new technology for areas such as core cloud processing, AI/ML analytics, open digital APIs, and streamlined capital market initiatives, the centralization and harnessing of all of the data critical to operating a successful and progressive financial institution will allow RegTech to move beyond simply “getting the job done better” to become a leverageable asset – an asset which provides full transparency and peace of mind to banking executives that not only is the job getting done, but is being accomplished faster, less expensively, more accurately and more timely. This newfound perspective will further enable executives to devote more time, energy and effort on other value-add revenue generating objectives. Thus, we see a healthy uptick in RegTech adoption rates and focus in 2019.



⁶ Thomson Reuters – Cost of Compliance 2017 Report - <https://legal.thomsonreuters.com/en/insights/reports/cost-compliance-2017>

⁷ Medici – How European Banks Are Using RegTech Solutions by Elena Mesropyan June 6, 2018 - <https://gomedici.com/how-european-banks-are-using-regtech-solutions/>

⁸ Duff and Phelps – Global Regulatory Outlook 2018 - <https://www.duffandphelps.com/insights/publications/compliance-and-regulatory-consulting/global-regulatory-outlook-2018>

⁹ Medici – Increasing Regulatory Complexity and the Cost of Compliance by Elena Mesropyan September 18, 2018 - <https://gomedici.com/increasing-regulatory-complexity-cost-of-compliance/>

6. Banks Become More Open

2018 will be remembered as the year in which open banking became a reality, particularly in the UK. However, the pace at which banks and other financial institutions are exploiting these opportunities varies greatly. Some merely put a toe in the waters of open banking, taking a “wait and see” approach. Others are taking the bull by the horns, recognizing open banking as a new and profitable way of doing business. Each financial institution has its own mindset and risk appetite, and that will dictate their approach to service innovation in 2019 and in the years ahead.

In today’s digital banking world change happens quickly and banks need to be able to adapt to change on multiple fronts – whether it presents itself as a threat from a new incumbent’s latest disruptive technology, or a new opportunity such as a partnership with large retailer looking for better access to financial data for their customers, or even regulators seeking to make access to banking easier and more transparent to consumers.

Wherever the change is coming from, open banking is necessitating banks to share customer data – with their consent and preference. This data can include account, transaction, product and other financial information that is shared with third-party providers; this sharing is giving rise to a connected ecosystem of various types of service providers. These expanded ecosystems will drive innovation, deliver better customer experiences, enhance existing bank products and offerings, and create new revenue streams for modernized banks.

In the past, payments was the most active area of open banking, with literally hundreds of fintechs and even Big Tech giants such as Apple and Amazon vying for a domain that was once exclusive only to banks. Banks do not want to see this pattern repeated in retail banking, so expect to see progressive banks seize the opportunity to utilize open APIs for the public to drive innovation and new business propositions.

For 2019 we expect to see the following as it relates to open banking:

- Banks acting more like platforms by augmenting and extending their financial services through various channels and allowing third parties to use and build upon the bank’s data to provide additional offerings (see Trend 7)
- Increased collaboration with fintechs and tech giants as banks can no longer control all aspects of consumer touchpoints and services
- Increased regulation with respect to data sharing and consent and protection
- Bank revenue models will change as banks may lose revenue in areas such as payments, due to competition, but gain revenue in other perhaps more profitable areas such as data monetization and consumer lending

7. The Platform Economy and the “Platformification” of Banks

Digital platform business models – those that connect two or more buyers and sellers in highly scalable ways – are changing the way companies can do business and succeed in the digital age. Banks that adopt a platform-based business model and engage in ecosystems of digital partners to create value will be well positioned to succeed in the digital age.

Simply put, platformification, or platform banking, is the new business model for banks, based on an “API first” architecture that has a plug-and-play approach to adding new features, services, products, capabilities and providers.

With platform banking, the banks, fintechs, corporations, third parties and end-consumers all connect to the platform to create and exchange value via API-based solutions. This allows financial institutions to still operate as the focal point (as an essential financial center or “hub”) while provisioning a one stop shop for consumers to access not only traditional bank services but also other innovative solutions and services from external providers. Ultimately the banks benefit by providing innovative new services for their customers and open the door to new revenue streams.

So, what does a Banking Platformification strategy look like?

• Requirement #1: Become A Magnet

Without the ability to attract a meaningful number of the “right” participants, a platform cannot succeed. Simply having a lot of producers and consumers is no guarantee of success. The platform must attract the right producers (those with the most desirable products and services) and the right consumers.

• Requirement #2: Act as Matchmaker

The platform requires a mechanism for matching consumers to the right producers, and enable producers to reach the right consumers via the platform. At its most basic level, a search engine can be a matchmaking mechanism.

• Requirement #3: Offer A Toolkit

This is what enables producers (and consumers) to easily plug-and-play on the platform. This is what makes APIs so critical to firms pursuing platform strategies.

In 2019, as banks become more open (see Trend 6), we will see banks evolve their operational models and create new revenue opportunities via the Banking Platform business model. These banks will satisfy their customers’ expectations for innovative ways to bank, allowing the fintechs and consumers to “build their own experience” with fully-enabled API bank accounts.

We are already seeing this with banks such as BBVA, Citi, Capital One, and HSBC, and expect to see more banks launching open banking platforms and marketplaces that bring together fintechs and launch next generation banking applications.

Read More: [Responding to External Threats: Is it Time for Platform Banking?](#)

8. People Don't Need Banks, People Need Banking – The Rise of The Invisible Bank

When fintechs entered the financial services space several years ago, banks were forced to change the way they interact with customers. Simply providing a website or mobile front-end to allow customers to check a balance or pay a bill is no longer sufficient. Customers today expect that all bank servicing can be done via a mobile app, and for many customers the idea of entering a branch is viewed as outdated.

Welcome to the new world of *The Invisible Bank*.

Customers today expect that their financial needs shouldn't revolve around how a bank wants to provide services, but rather how they (the consumer) wants to bank. It is imperative for banks to remove any pain and friction associated with the existing customer journeys.

With an invisible bank, the bank's products, services, and operations are completely integrated with the consumer's day-to-day digital touchpoints, so much so that consumers don't even realize the bank's presence as they perform banking functions. Services and products are packaged in the background, essentially invisible to the customer; and the whole process is wrapped into a comfortable and enjoyable customer experience. Banking channels will take away the conscious decision of the customer to transact; the process will be seamless. The result is a customer experience that feels natural, organic, and satisfying.

In 2019, with the adoption of digital technologies such as AI advanced analytics and voice-based conversational banking, we will start seeing banks becoming invisible. We do not see a full-fledged completely invisible bank on the horizon in 2019, but activities such as payments, balance inquiries, planning and servicing will become more embedded in customers' lives. For example, in 2019 we expect to see banks further integrate with voice assistants such as Amazon Alexa and Google Home to enable customers to proactively perform daily personal and financial tasks effortlessly, as the banks make strides to become a seamless part of the modern customers' lives.

To be successful with these "invisible" initiatives we expect to see banks make investments in APIs, cloud-based services, and artificial intelligence. Banks will be increasing their efforts to efficiently utilize their highly valuable data and build effective and profitable partnerships with third parties.

Note that while we see invisible banking as a positive for consumers' financial lives, it remains to be seen what the long-term impact on the banks will be. It could be positive (thanks to improved customer satisfaction), but has the potential to negate the power of the bank's brand, with banks becoming more of a commodity/utility provider. Banking strategists will need to plan for how to best manage this.

9. Tech Giants – The New Threat

There are new bank challengers in town: tech giants such as Amazon, Alibaba, Apple, and Google have all launched solution offerings that compete directly with banks. With their customer-centric strategies and high tech capabilities, these challengers can win customers by cutting costs while delivering convenience and ease of use. In fact, in a Bain & Company survey of more than 133,000 banking customers in 22 countries, consumers said they trust Amazon and PayPal with their money nearly as much as their banking provider. Some 55% of U.S. consumers said they are open to buying financial products from established tech firms, and 73% of millennials said they would be more excited about a new financial offering from the likes of Amazon, Google, PayPal or Square than from their bank.¹⁰

Tech giants Amazon and Apple have been targeting the payments domain for a few years now and in 2019 we expect to see these and other tech giants making more inroads into banking domains. Consider the following:

- In the United States, Amazon already offers a quasi-deposit service, credit cards, and business loans. Amazon can turn jars of change into gift cards, and will give your kids their allowance via a reloadable debit feature.
- In India, Amazon delivery staff already take cash deposits at people's doorsteps. Amazon collects deposits from Indian customers through the Cashload feature in a version of Amazon Pay. Many Indian customers prefer to pay for deliveries in cash, on arrival. Amazon allows them to warehouse any surplus cash from their purchase in their Amazon Pay account. The customers can also deposit additional funds against future orders.
- In China, Amazon's partnership with Ant Financial started with payments to ease the pain of customers and sellers for their e-commerce business; they quickly realized the opportunities in other financial services areas, such as their Small and Medium Enterprise (SME) Lending business.

Are these a preview of what could come to other markets?

The tech giants are very adept at bridging the value chains of various industries, blurring sector boundaries and reshaping one industry after another. On top of that, platform companies have great customer data and know how to make the most of it, especially when it comes to customer journeys that include financial decisions.

The major threats that platform companies bring to banks include:

- **Disintermediation** – Banks lose access to customers who switch to non-banking channels
- **Unbundling** – Products and services are no longer integrated or the exclusive domain of the bank
- **Commoditization** – Banks struggle to stand out as customers compare banking products online with greater transparency

¹⁰ <https://www.bain.com/insights/evolving-the-customer-experience-in-banking/>

- **Invisibility** – Banks are losing brand awareness and becoming invisible as customers can access financial services without even knowing the underlying brand

Tech giants expanding into financial services target the origination and sales side of banking. As a point of reference, these areas produced 47% of global banking revenues and 65% of profits for banks in 2017¹¹. If tech giants can establish a beachhead in the financial services space it could be very costly for banks, potentially threatening the survival of some banks.

10. 2019 Could Be the Year of the Self-Service Kiosk

In the financial services industry there is a focus on improved customer experience, and for 2019 we expect that banks will be investing in their physical presence where it makes sense – ideally the “branch/café of the future”. This can be realized in a variety of approaches depending on demographics, volumes and target markets. From functionality loaded ATM/Kiosks, to flagship stores for testing combinations of people and devices, banks around the world are testing ideas. As part of this trend, we expect to see the self-service kiosk become more predominant.

At locations with high transaction volumes, the use of self-service kiosks can enhance the customer experience and reduce transaction costs. Today’s consumer is already accustomed to self-service experiences through common retailers, the airline industry, or their local grocery. Making use of these digital-servicing tools allows bankers to spend more time proactively engaged with customers while making open spaces and ‘pods’ conducive to conversations.

Self-service kiosks such as the Personal Teller Machine allow customers to complete 90% of the transactions traditionally handled by a teller, without assistance. They differ from ATMs in the variety of transactions that can be completed. Consider the self-service kiosk benefits outlined by the “Five Fs” listed below:

- **Footprint** – At just 1.2 square feet, Personal Teller Machines can be installed with no construction required.
- **Functionality** – Personal Teller Machines offer up to 15 transaction options
- **Fee Elimination** – The Personal Teller Machine integrates to the core platform, avoiding ATM fees
- **Flexibility** – The software platform allows the financial institution to make screen/button changes
- **Financial** – The Personal Teller Machine costs about 50% less than an ATM
- Focus is on the user experience

In-branch kiosks can run on existing network infrastructure and are ultra-affordable compared to traditional ATMs. Ideally, where cash handling is required, it can all be handled by devices. Cash recycling at the device level is mature and reduces operational costs.

Read More: [Banking on the Branch of the Future](#)

In Summary

Banking is currently experiencing a period of great momentum toward modernization; there has been no other time quite like this in the banking sector. The industry is at the confluence point of major technology advances, ever increasing customer expectations, stiff competition and massively complex regulatory precedence. The year 2018 held more change and innovation in financial services than years previous, and surely 2019 will further increase this pace of change, with the potential for many inventive and creative collaborations, advanced modernization, adaptive business models, and exciting innovations.

Happy New Year!

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