

An aerial photograph of a coastline with a yellow diagonal line running across the top and bottom of the page. The top part shows a sandy beach meeting the ocean, while the bottom part shows a rocky coastline with a small white building.

BEACON

NORTH HIGHLAND / 2018

a **FINANCIAL SERVICES** industry guide
to thinking forward for the year ahead

Revenues Positive yet Financial Services Leaders Feel Strapped, Unprepared

Top Financial Services Leaders are Unsure about 2018 and what they can Realistically Execute

NORTH HIGHLAND INSIGHTS: Survey data that helps guide business decisions.



To explore business leader mindset, North Highland surveyed more than 600 senior level employees in energy, financial services, healthcare, retail, and media, entertainment, and telecom at companies with 2016 revenues in excess of \$1 billion and operations across the globe. This report draws on input from financial services leaders from October 2017.

More than one-third of financial services respondents report feeling resource-strapped. This is no surprise, as there is a lack of clear direction on what to do next to address pressures concerning cyber security, digital offerings, transformation, regulation, and adapting to customer demand.

The old-school foundation on which financial services rests is no longer relevant. Financial services companies must understand their customers better than ever so they can deliver a superior and differentiated customer experience. This reality underlies resource concerns. Firms need to upskill current talent, onboard new skills, and implement new technologies to handle changing customer needs and implement new solutions.

In the survey, leaders expressed a desire and excitement to move beyond focusing on regulatory compliance. However, many do not believe they have the expertise in-house, or the funding, to execute on some of their most important priorities such as cyber security, digital capabilities, and transformation.

KEY INSIGHT

Revenue is still growing, though slowing from its recent pace. Sentiments of excitement and energy are marred by a lack of resources to carry out strategic priorities, or innovate. **Effective prioritization will come from determining what clients want and need, what firms can profitably deliver, and what leaders can realistically execute.**

HIGHLIGHTS AND INSIGHTS

Cyber security—was the No. 1 strategic priority, yet only 37 percent saw it as a definite competitive advantage and 32 percent stated they are very prepared to address it.

Cyber security is paramount for maintaining trust. The fact that a third feel very prepared is a positive sign; however, the other two-thirds represents a risk for the entire industry. As we have seen, one breach has rippling effects. The firm that creates trust and value will maintain relationships throughout the client lifecycle and will be better prepared when a security issue arises.

Digital capabilities and transforming to be more efficient—were the second and third top priorities respectively. Both scored high in terms of competitive advantage, but relatively low in terms of preparedness.

- **Digital capabilities:** 47 percent cited this as a definite competitive advantage; 14 percent feel very prepared to address it.
- **Transformation:** 52 percent cited this as a definite competitive advantage; 26 percent feel very prepared to address it.

It is not enough to be bankers anymore: financial services organizations must be sophisticated technology experts and agile enough to navigate a faster world. While the survey illustrated a serious lack of preparedness for digital due to lack of focus and clear direction, financial services companies must implement digital transformation for the entire ecosystem, not as its own channel or strategy.

Product enhancement innovation, internet of things (IoT), and artificial intelligence—mobile ranked low as an overall strategy (26 percent), but moderately as a competitive advantage (43 percent) and in preparedness to address it (43 percent). AI also ranked low overall in priority (20 percent) and moderately as a competitive advantage (49 percent), but few said they are very prepared for AI (26 percent).

This mindset runs counter to the rapid consumer shift to mobile services and to the growing role of AI in key customer onboarding and lifecycle management functions. Traditional segmentation and servicing are a thing of the past. Companies need all the pieces to deliver a holistic client experience.

NORTH HIGHLAND INSIGHTS

> more than one-third of financial services respondents report feeling resource-strapped

CYBER SECURITY



DIGITAL CAPABILITIES



TRANSFORMATION



ARTIFICIAL INTELLIGENCE



AGILE WAYS OF WORKING



MANAGING IMPACTS OF LEGAL AND REGULATORY ENVIRONMENT

54 percent see as top priority, but only 25 percent think it's a competitive advantage

Product innovation and agile ways of working—59 percent see innovation as a definite competitive advantage, but it ranked in the middle as a priority. 56 percent see agility as key to staying competitive, yet it ranked low in priority.

Financial services executives want to innovate, but are not sure how. Firms must embrace agile ways of working beyond IT and find change leaders to test and learn with client experience, products and services, compensation models, technology, and processes. When innovation leaders come up with a good idea that works, they must have incentives and the green light to roll it out quickly.

Managing impacts of legal and regulatory environment—a top priority (54 percent very high), but less think it's a competitive advantage (25 percent) or are very prepared to address it (35 percent).

Heightened regulatory oversight is now business-as-usual. With ever-changing regulatory and legislative requirements, firms will need to adapt a more agile approach to addressing and implementing required changes, while determining how best to create a better client experience and competitive advantage.

Adapting to changing customer needs and customer centricity—are nearly equal in importance, with 42 and 44 percent of leaders calling them very high priorities.

While the survey found that financial services as an industry is slightly more prepared for and feel adaptation is the higher priority, customer centricity must be the No. 1 priority for firms to grow and prosper. Understanding the customer and delivering seamless experiences is the best lens to everything else on the strategic priority list for 2018.

The financial services industry has always been and always will be complex. Change is here to stay, and leaders need to embrace the changes in a more responsive and nimble way. Do you know what your clients truly want from you? What will make them want to do more business with you? What is lurking behind the scenes that will make them leave you? The first step to navigating the future is understanding your value proposition based on client motivations, behaviors, needs, and wants.

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