

Disruptive technology in financial services:

Are you focused on the future?





Introduction

There is no question that technology is disrupting every element of our lives, simplifying and providing alternative processes and enabling new sources of value to be identified.

Collaborative ventures and the platform economy are empowering new and exciting ventures to succeed in multiple sectors, following in the footsteps of industry giants Amazon, Alibaba, Apple, Uber and Airbnb.

It's a revolution that cannot be ignored. At the same time, some organisations are embracing digital transformation to deliver value to their customers. Industry analyst IDC has predicted that businesses failing to take on the digital transformation challenge risk seeing two-thirds of their addressable market vanishing by 2022.

And recent research from Bain & Company found that revenues for digital leaders had grown by 14% over the previous three years, more than doubling the performance of digital laggards in their industry sectors.

In the finance industry, disruptive technologies like artificial intelligence (AI), robotics, Regtech and blockchain are increasingly impacting the way firms operate. Early adopters are reaping the benefits of applying new technologies to business processes, especially time-consuming manual tasks that can now be automated.

Financial services firms responding to research that Intertrust commissioned in September 2018, appear broadly positive and optimistic about how technologies will bring even greater value to their organisations.

Outcomes of the research show how disruptive technologies are not necessarily completely replacing current processes and how firms are harnessing the benefits of emerging technologies to improve efficiency and the quality of customer service. Interestingly, while multiple processes can now be automated, the human touch is still important and irreplaceable for many.

Understanding where the value-add is for organisations embracing technology innovations is vital. It's important to know how technology unlocks value in business, whether it's derived from bringing client-centric solutions to the forefront, creating insights and assessing credit-worthiness from multiple data sets, using blockchains for KYC reporting or automating customer interfaces.

Yet the skills shortage is a huge challenge for firms looking to benefit from the power of technology. There's a clear demand for cyber and data-handling skills, and, for example, fund managers are seeking the relevant skills and expertise to assess the digital health of assets alongside financial metrics. For corporates, there's a need to bring technology expertise onto their boards to help guide business innovation.

Perhaps unsurprisingly, cyber security poses the greatest risk to businesses. Whilst new technologies mean it's an exciting time for the financial services sector, there are still challenges and risks. The ever present threat of cyber incidents and data breaches are of huge concern to respondents surveyed for this report.

The demand for Regtech solutions will continue to increase over the next two years. As companies have changed, so have the demands of the regulators and the tools used to meet such obligations. Technologies like blockchain hold huge potential to simplify regulatory reporting in areas like KYC, although much of this is in its infancy.

We hope you find our report both interesting and insightful and that it will help inform and drive your own strategies as the industry moves towards a more digitally-focused future.



Stephanie Miller
CEO
Intertrust

Sources

IDC FutureScape: Worldwide IT Industry 2019 Predictions
<https://www.idc.com/getdoc.jsp?containerId=US44403818>

Bain & Company: Orchestrating a Successful Digital Transformation
<https://www.bain.com/about/media-center/press-releases/2018/orchestrating-a-successful-digital-transformation/>

Where's the value-add?

33% respondents say that disruptive technology such as AI, blockchain and robotics is already being adopted in their sector compared with just 31% who believe it's far away from being widely embraced.

Almost two thirds (65%) of respondents believe that disruptive technology will have a positive impact on their sectors. They are particularly positive about its potential to improve operations, especially in back-end processes and due diligence.

Almost two thirds of respondents think technology innovation will offer greater operational efficiencies.

The current focus is on how technology can add value by simplifying, automating, standardising and commoditising processes, rather than how to completely transform business models in response to competitive market entrants and disruptors. Almost three quarters of respondents think technology innovation will offer greater operational efficiencies, but only 18% think it represents an existential risk to their business.

Just 14% of respondents claim to have invested heavily in new skills or technology to be ahead of the curve, but around the same proportion believe that technological innovation has had a limited effect on their sector so far. 57% are somewhere between the two, believing that technology innovation presents significant future growth opportunities.

AI will have the greatest impact

Over three-quarters (77%) of respondents believe the technology that will have the greatest impact in future will be AI, which includes a wide range of processes across business lines such as machine learning, automated credit decision making and handling investor or client enquiries more efficiently. This is followed by 56% who identified blockchain as the most disruptive technology.

Accounting and operations will be most affected

Our report indicates that accounting and operations will be most effected by value-add disruptive technologies, closely followed by compliance. 69% respondents think technology will change or replace roles in accounting.

An understanding of how technology unlocks value in business is now vital.

Sector spotlight

The capital markets* sector is furthest ahead in adopting new technologies: just over half of respondents believe technologies such as AI, blockchain and robotics are already being adopted in their sector, compared to an average across all sectors of 33% and just 17% of respondents in the private wealth sector.

The real estate industry is the most bullish about the potential of new technologies to provide future growth opportunities: more than two thirds (69%) said this is the case, compared to an average of 57% across all sectors.

Despite the clear value that technologies and automation will deliver, 37% of respondents in the corporate clients sector said that having human interaction is very important and a decisive factor when selecting a corporate clients provider.

Corporate clients* and real estate are more likely to believe that robotics will have the potential to disrupt their sectors than private equity, capital markets and private wealth.

*the industry segments are defined in the methodology at the back of this report.

Key findings



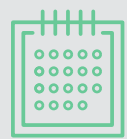
77%

77% of respondents believe AI will have the greatest potential to disrupt their sector over the next five years



65%

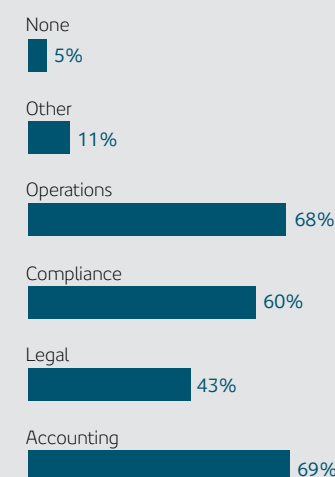
65% report that technology innovation will offer greater operational efficiencies



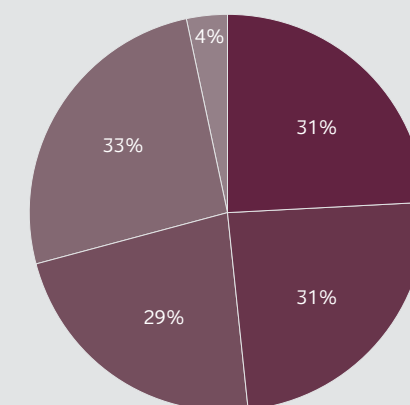
33%

33% say that AI, blockchain and robotics are already being adopted in their industry and will become more widespread in the near future

Q. What roles do you see as being significantly changed or replaced by AI, robotics or blockchain? (select all that apply)



Q. Which of the following best describes the application of AI, blockchain and robotics technology in your industry? (select all that apply)



- 31% These technologies are far from widespread adoption in my industry
- 31% Blockchain, AI and robotics are poised for widespread industry adoption in the next five years
- 29% There is currently insufficient knowledge about blockchain, AI and robotics for them to be widely adopted in my industry
- 33% AI, blockchain and robotics are already being adopted, and are likely to become more widespread in the near future
- 4% These technologies will never replace existing systems

Q. Which of the statements below best describes your current perception of technology innovation and its impact on your business? (select all that apply)



Mind the gap: getting the right people and skills on board

Data analysts, data scientists and cyber experts are in high demand and respondents expressed concerns about how disruptive technology will be implemented, especially since many are already struggling to recruit the right personnel.

Over a third of firms say keeping pace with technology innovations is a challenge for their organisation.

AI exposes biggest skills gap

Given that AI is seen as the technology that will drive the biggest change in the coming years, it follows that it is already exposing the industry to the biggest skills shortages, according to nearly four in ten (39%) respondents together with Regtech and compliance (39%).

The next two technologies liable to expose companies to skills shortages are data analytics (35%) and cyber security (34%).

Recruit and retrain

To counter the skills gap over the next two years, 27% of respondents report that their organisation is recruiting new tech talent at a senior level and has plans to retrain existing personnel.

But there are some signs of a lack of urgency when acting upon the need to secure relevant talent and skills.

29% of respondents already feel that keeping pace with technology innovations is a challenge for their organisation, while 16% report that they are struggling to locate tech talent. Worryingly, 29% say their firm doesn't recognise the need to recruit tech talent or invest in internal training programmes in the immediate future.

Tech-focused C-suite appointments to rise dramatically

Having leadership in place with an awareness of the impact and improvements that digital innovation can bring is a huge success factor in its adoption. Four in ten (40%) firms believe the majority of organisations in their sector will create technology roles at a C-suite level over the next five years, while a further third (33%) say that only a minority of firms will appoint senior tech specialists to lead the digital charge.

Sector spotlight

The capital markets sector, which encompasses so many segments, including banking, law and corporates, is currently experiencing the highest levels of digital transformation. Firms in the capital markets sector are much more likely to be already recruiting additional technology staff and retraining existing personnel than those in other sectors.

The private equity industry is a clear leader in sourcing C-suite technology executives with more than half (55%) of respondents reporting that disruptive technology will drive the appointment of senior tech leaders for the majority of companies in their sector. This is higher than the average of 40% and over twice as many as the private wealth sector.

Key findings



29%

29% say keeping pace with technology innovations is a challenge for their organisation



39%

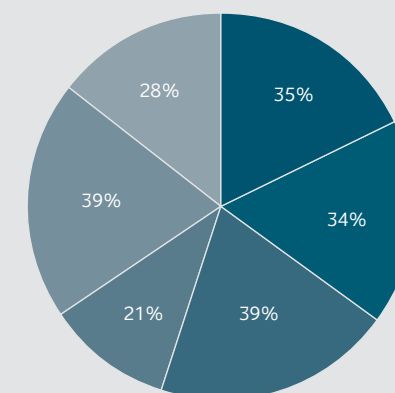
AI and Regtech (39%) are exposing the industry to the biggest skills shortages



27%

27% of organisations are already recruiting new tech talent

Q. Which technologies are exposing your industry to the most skills and talent shortages?(select all that apply)

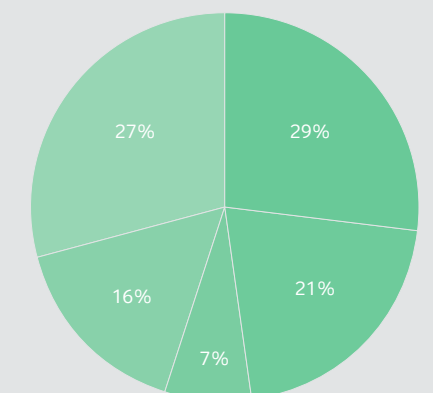


- 35% Data-analytics
- 34% Cyber security
- 39% Regtech and compliance
- 21% General coding / Application development
- 39% Artificial Intelligence
- 28% Blockchain

Q. Over the next five years, do you expect to see firms in your sector creating senior technology roles at a C-suite level or equivalent with a mandate to drive strategic change?



Q. In the next 12-24 months, how will the skills gap created by emerging technologies be addressed in your sector?



- 29% My organisation does not recognise the need to recruit tech talent or invest in internal training programmes in the immediate future
- 21% My organisation is trying to recruit tech talent but is finding it challenging
- 7% Don't know
- 16% My organisation has plans to recruit new tech talent at a senior level and increase training for all existing staff
- 27% My organisation is already recruiting new tech talent at a senior level and has plans to increase training for all existing staff

Cyber security poses greatest risk

Cyber security is by far the biggest risk identified with disruptive technology, according to half (50%) of respondents. The danger of a cyber attack overshadows any concerns that tech innovation will undermine business models and pose an existential threat.

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The value of data and the need to protect it, along with the reputational and regulatory risks that data breaches introduce now that regulation like the GDPR is in place, go some way to explain this view.

As well as putting firms at risk of regulatory fines and eroding customer trust, cyberattacks can also create distributed denial of service (DDoS) episodes where entire networks grind to a halt, preventing organisations from operating at all; introduce harmful viruses such as Ransomware; or even enable the theft of precious intellectual property.

Given all these potential consequences, cyber security is understandably viewed as the biggest technology-related risk by organisations across all five sectors. It also helps to explain the theory that while firms across all sectors understand the transformational potential that technologies like AI will have in the future, the greatest benefits will only be achieved in the next five years as it becomes commoditised and mainstream.

Secondary risks

The most important secondary risks are the impact of new technologies on business models (cited by 13% of respondents) and firms' inability to recruit the right people to build the digital processes they need (11%). But their concerns in both areas come nowhere near worries about cyber incidents, underlining the premise that many firms have yet to get their operational and data houses in order before considering how to transform them.

Cyber security is by far the biggest risk identified with disruptive technology.

The impact of new technologies on business models and firms' inability to recruit the right people to build digital processes they need are the most important secondary risks after cyber security.

Sector spotlight

From a sector point of view, real estate firms are the wariest about cyber and data breach incidents, followed by those in the private equity and capital markets sectors.

Respondents in the corporate clients sector are more worried about their business model being disrupted by technology than those in all other sectors, as well as having bigger concerns about their ability to recruit the right people to implement new technologies.

Key findings



50%

50% believe cyber security is the biggest tech related risk they face, well ahead of the next option, which is their business model becoming obsolete (13%)



18%

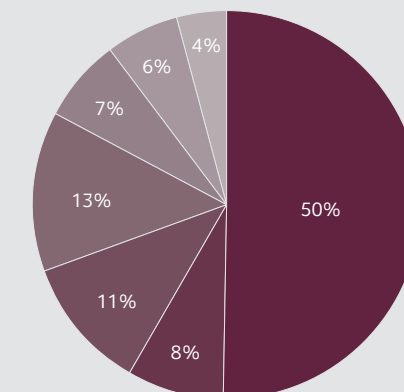
Just 18% believe technology innovation poses an existential threat



11%

11% believe inability to recruit tech talent poses a risk to organisations

Q. Which of these technological risks give you the biggest cause for concern? (select all that apply)



- 50% Cyber security / data breaches
- 8% Systems unable to cope with impact of regulatory changes
- 11% Shortage of skilled staff to introduce new technology/inability to recruit tech talent
- 13% Business model becoming obsolete due to disruptive technology
- 7% Cost of upgrading legacy systems
- 6% Major IT failure
- 4% Data quality

The Regtech revolution

Complying with regulation on time and accurately is a huge element of financial services firms' operational and back office processes. This include meeting regulatory demands placed on your industry and ensuring your processes are compliant for clients.

There is set to be huge growth in demand for Regtech moving forward.

Demand for new Regtech solutions will grow

New Regtech solutions bring previously unforeseen levels of automation to the regulatory compliance process, including reporting and monitoring. Often provided as a software as a service (SaaS) model, Regtech solutions are designed to boost transparency and support compliance with regulation such as KYC.

Our research shows that there is expected to be a surge in demand for Regtech solutions, particularly in our capital markets and corporate clients firms. Across all sectors, an average 85% of respondents believe that demand for Regtech solutions will grow either moderately or significantly over the next two years.

Sector spotlight

Respondents from the capital markets and corporate clients sectors are more likely to believe that demand for Regtech solutions will increase over the next two years with 59% agreeing that demand will grow significantly, followed by those in the private equity (45%), real estate and private wealth sectors (34%).

Private wealth firms are most likely to trust traditional administrators with the provision of Regtech solutions and least likely to choose Fintechs.

Only capital markets firms are as likely to turn to law firms with strong regulatory experience for Regtech solutions as they are to traditional administrators.

Regtech solutions bring previously unforeseen levels of automation to the regulatory compliance process.

Traditional administrators provide the best source of support with Regtech solutions.

Traditional service providers best placed to provide Regtech solutions

Support for the implementation and hosting of Regtech is currently available from a variety of sources which is reflective of their relatively recent emergence as vital toolkits for success.

Respondents believe that the best source of support with Regtech solutions is traditional administrators (31%) or new Fintech providers (23%). Law firms with strong regulatory experience and audit firms are less preferable choices of partners to help with Regtech solutions, while boutique management and regulatory consultancies are ranked fifth.

Key findings



85%

85% of respondents believe that demand for Regtech solutions will grow either moderately or significantly over the next two years



31%

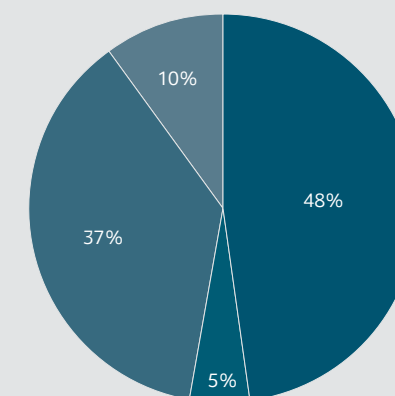
31% of firms think traditional administrative service providers will be best placed to help businesses with Regtech solutions



59%

59% of respondents from the capital markets and corporate clients sectors believe that demand for Regtech solutions will grow significantly over the next two years followed by those in the private equity (45%), real estate and private wealth sectors (34%)

Q. What will happen to levels of demand for regtech (regulatory technology) solutions over the next two years in your sector?



48% Demand will increase significantly
5% Don't know
37% Demand will increase moderately
10% Demand will stay the same

Q. As the regulatory burden intensifies, who will be best placed to help businesses address the challenge this presents?



Conclusions

Financial services professionals surveyed for our report are broadly positive about the impact that disruptive technologies are having, and will have, on their businesses and their sectors.

There will be a rise in demand for senior C-level executives who can drive through technology-related strategic transformation.

Currently, there's an emphasis on how AI, robotics or data analytics can improve the effectiveness of back office operations, but respondents are confident that technologies will bring even more value to their organisations and sectors in the future.

While 33% say that they are already adopting innovative technologies today, 77% believe that AI will have the potential to disrupt their sector in the next few years.

The challenge for many firms is taking proactive steps to attract the right people and skills to make change happen.

This is not just a question of ensuring that existing personnel understand how to use new technologies to improve business processes but extends to appointing senior C-level executives who can drive through technology-related strategic transformation.

Firms are bullish about how technologies will bring even more value to their organisations and sectors in the future.

The view that new technology and the resulting business processes and models that ensue from its introduction can be managed in isolation is outdated. The most value is driven today by using technology to support everything from customer portals to transaction processing and smart data analysis.

The challenge for many firms is taking proactive steps to attract the right people and skills to make change happen.

However, sectors such as private wealth, private equity, corporate clients, capital markets and real estate are still very much driven by personal relationships and services – this should not be forgotten in the race to adopt new technologies. Clients – and how they wish to interact with us – should be very much at the heart of everything we do.

Successful organisations recognise that emerging technologies will not just impact their own businesses, but also the sectors in which they operate. The winners will be those that have the skills to turn vision into reality and have a transition programme in place.

Methodology

Research was carried out in September 2018 by Citigate Dewe Rogerson on behalf of Intertrust via an online survey sent to a global database provided by Preqin and Intertrust.

Over 500 responses were gathered from professionals and advisors based in the UK, Continental Europe, North America, Africa, Asia and the Middle East and were segmented by the following industry sectors:

- Corporate clients (multinationals, small and medium-sized enterprises and entrepreneurs)
- Capital markets (accountants, lawyers and bankers working on securitisation, structured finance and alternative finance transactions)
- Private equity
- Real estate
- Private wealth

Intertrust is a global leader in providing expert administrative services to clients operating and investing in the international business environment. The Company has more than 2,500 employees across 41 offices and 29 jurisdictions in Europe, the Americas, Asia Pacific and the Middle East. Intertrust had leading market positions in selected key financial markets, including the Netherlands, Luxembourg, Jersey and the Americas. Intertrust delivers high quality, tailored corporate, fund, capital market and private wealth services to its clients, with a view of building long-term relationships. The Company works with global law firms and accountancy firms, multinational corporations, financial institutions, fund managers, high net worth individuals and family offices.

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