Future of Finance Study

An Insight into the Minds of Financial Industry Executives around the Globe Regarding Growth, Sustainability, Future Skills, and Technology

October 2022

Foreword

The financial sector has always had episodes where change is the dominant sentiment. What makes the current period particularly interesting is that many of the factors that underpin that transformation also offer the means for reaching a much brighter future. The study in your hand shows that this has created a much more optimistic outlook than might have been expected.

New business models are emerging, while the impact of digitalization on both internal efficiencies and the stability of market infrastructure is a notable theme. Crypto and digital assets are also here to stay, and the industry has only scratched the surface of return opportunity that can be derived from the use of data & analytics. It is for these reasons that executives are ultimately optimistic.

At this pivotal point in the history of global finance, all financial institutions need trusted partners to help them see future growth through times of economic contraction. The results of our research show that, in order to achieve this growth, a broad spectrum of expertise is required, alongside investment in technology needed to transform today's markets and solve the challenges of the future, now.

Jos Dijsselhof
CEO SIX

EXECUTIVE SUMMARY

At a time of economic uncertainty and geopolitical unrest, the majority of financial institutions are confident in their organization's ability to grow their business over the next few years.

Around the world, business leaders expect the overall economic environment to improve over the next 12 months – a key finding in this Future of Finance Study from SIX. Despite current inflationary pressures and low growth, they believe they are well positioned for the future.

Overall, respondents at investment banks had the most positive view of their growth prospects, followed by asset managers. Wealth managers and asset servicing companies are less positively positioned, but it is worth noting that in each of the sectors surveyed, at least three quarters of respondents expect strong or moderate growth.

As to what is driving growth expectation, adoption of new business models is one of the most commonly given reasons, as well as internal efficiency savings generated by digitalization. Advanced data and analytics are also recognized as a major driver of potential business expansion. The remaining top driver for growth is new and alternative asset classes, including cryptocurrencies. Confidence in the ability of non-traditional assets to deliver growth is greatest among asset managers, asset servicing companies, and both retail and investment banks.

Emerging sustainability concerns are also seen as opportunities to be grasped rather than the imposition of unwanted regulation. Many view ESG-related capabilities and new offerings for clients as an essential component of business success.

Challenges inevitably remain. The biggest drag on growth is likely to be the industry's continuing skills shortage. Financial institutions are looking at more flexible working patterns that include hybrid and remote working, as well as strategic partnerships.

They also acknowledge that future growth depends on embracing a spirit of partnership and collaboration. Relationships with vendors of various core and non-core services are central to future growth, as is leveraging the expertise from preferred partners who can complement in-house strengths.

Throughout the study the signs are there that financial institutions are looking for growth, new ways of working, and additional data sources to seize the opportunities they have identified – all while building stability, clarity, and certainty into their operations.

It is evidence that the Future of Finance Is Now.

Survey Framework

For the global Future of Finance study, Censuswide on behalf of SIX surveyed C-level executives across 297 international financial institutions covering asset management, wealth management, asset servicing, banking services, retail banking, and investment banking, in the UK, the USA, Hong Kong, Singapore, Germany, Spain, and Switzerland. The survey was carried out between the 2 and 18 August and was comprised of a total of 20 questions across four key topics: Growth, Sustainability, Technology, and Future Skills.

Positive Outlook: Growth Expectations in a Time of Economic Uncertainty

Read about the extent to which financial institutions feel they are strategically positioned for growth across the next three years within the current economic climate. This includes the key drivers and challenges they foresee.

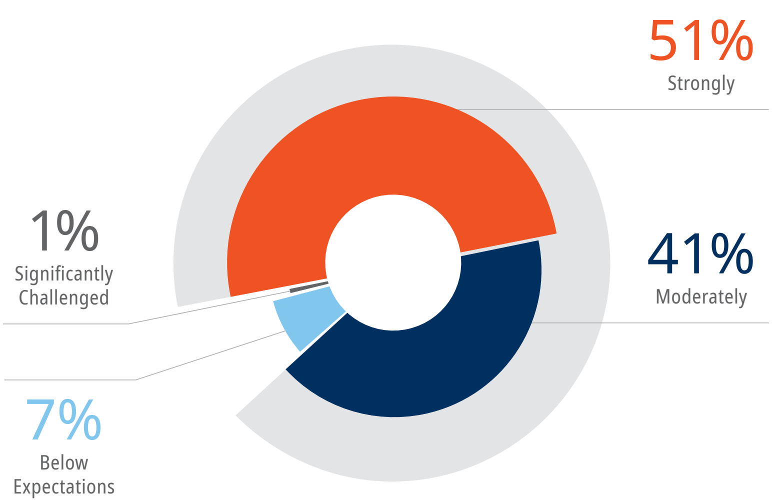
Senior executives in the global banking and finance sector are bullish about their future growth prospects, even as central banks predicted a decline in GDP and technical recession.

More than 90% of business leaders believe that their organization is positioned for strong or moderate growth over the next three years (see graphic 1), with US respondents the most optimistic about their growth trajectory. What's more, 66% expect the economic environment for their business to improve by the end of 2023, while an even greater number (more than 70%) believe that inflation rates would slow by the end of the same year.

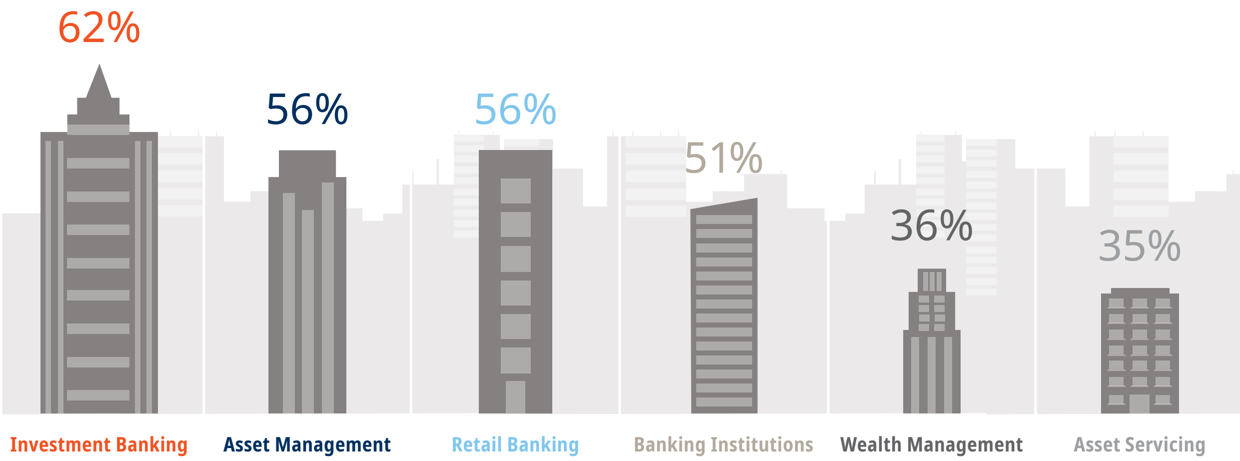
This positive outlook can be seen around the world, with little notable difference in attitude among companies in the US, the UK, Switzerland, Spain, Germany, Singapore, and Hong Kong. Where differences of opinion appear, they are among the different types of surveyed financial institutions, which may reflect the varied degree of impact on their individual business conditions.

For example, overall, respondents at investment banks had the most positive view of their growth prospects, followed by those at asset managers and retail banks (see graphic 2 on the next page). In each case, more than 56% expect strong growth in the next three years. Wealth managers and asset servicing companies are the least bullish of organizations surveyed, but it is worth

1. HOW STRONGLY DO YOU EXPECT YOUR ORGANIZATION TO BE POSITIONED FOR GROWTH OVER THE NEXT THREE YEARS IN THE FACE OF RISING INFLATION AND INTEREST RATES?



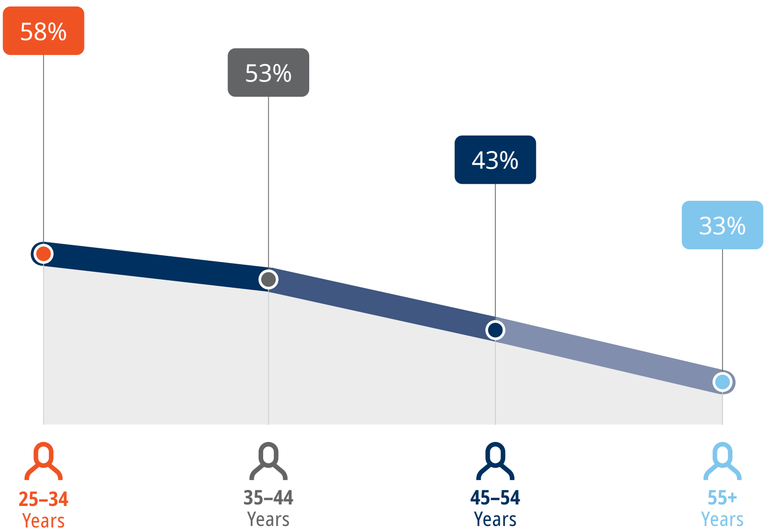
2. PARTICIPANTS WHO EXPECT THEIR ORGANIZATION TO BE POSITIONED STRONGLY FOR GROWTH (BY TYPE OF ORGANIZATION)



noting that in each of the sectors surveyed, at least three quarters of respondents expect strong or moderate growth.

Younger age groups tend to have stronger growth expectations than their older colleagues (see graphic 3). Indeed, the older the respondent and, potentially, the more periods of economic uncertainty they have experienced professionally, the more cautious their expectations tend to be. Once again, however, it must be noted that those with positive growth expectations greatly outnumber those with negative views, regardless of age.

3. PARTICIPANTS WHO EXPECT THEIR ORGANIZATION TO BE POSITIONED STRONGLY FOR GROWTH (BY AGE GROUP)



Drivers of Growth

As to what will drive growth over the next three years, the adoption of new business models is one of the most commonly given reasons (see overview on the following page), as well as digital transformation (i.e., internal efficiencies through digitalization). After years of operational efficiency programs, there is still some remaining fat to trim, but this is now very much viewed through the lens of digital transformation. Indeed, the impact of digitalization on the stability and longevity of financial markets' infrastructure is a key issue that recurs throughout the study.

Another top-four driver for growth is new & alternative asset classes, such as cryptocurrencies, digital assets, and private markets. Confidence in the ability of these non-traditional assets to deliver growth is greatest among asset managers, asset servicing companies, and both retail and investment banks.

Advanced data & analytics is also recognized as a major driver of potential business expansion, as the opportunities to use proprietary and third-party information to generate alpha or simply make returns become increasingly clear.

Among wealth management institutions, the growing value of data & analytics is seen as critical to drive growth. Crypto & digital assets are ranked lower but visibly present, an indication that demand for these types of assets is still emerging among high-net-worth individuals compared to institutional and retail investors.

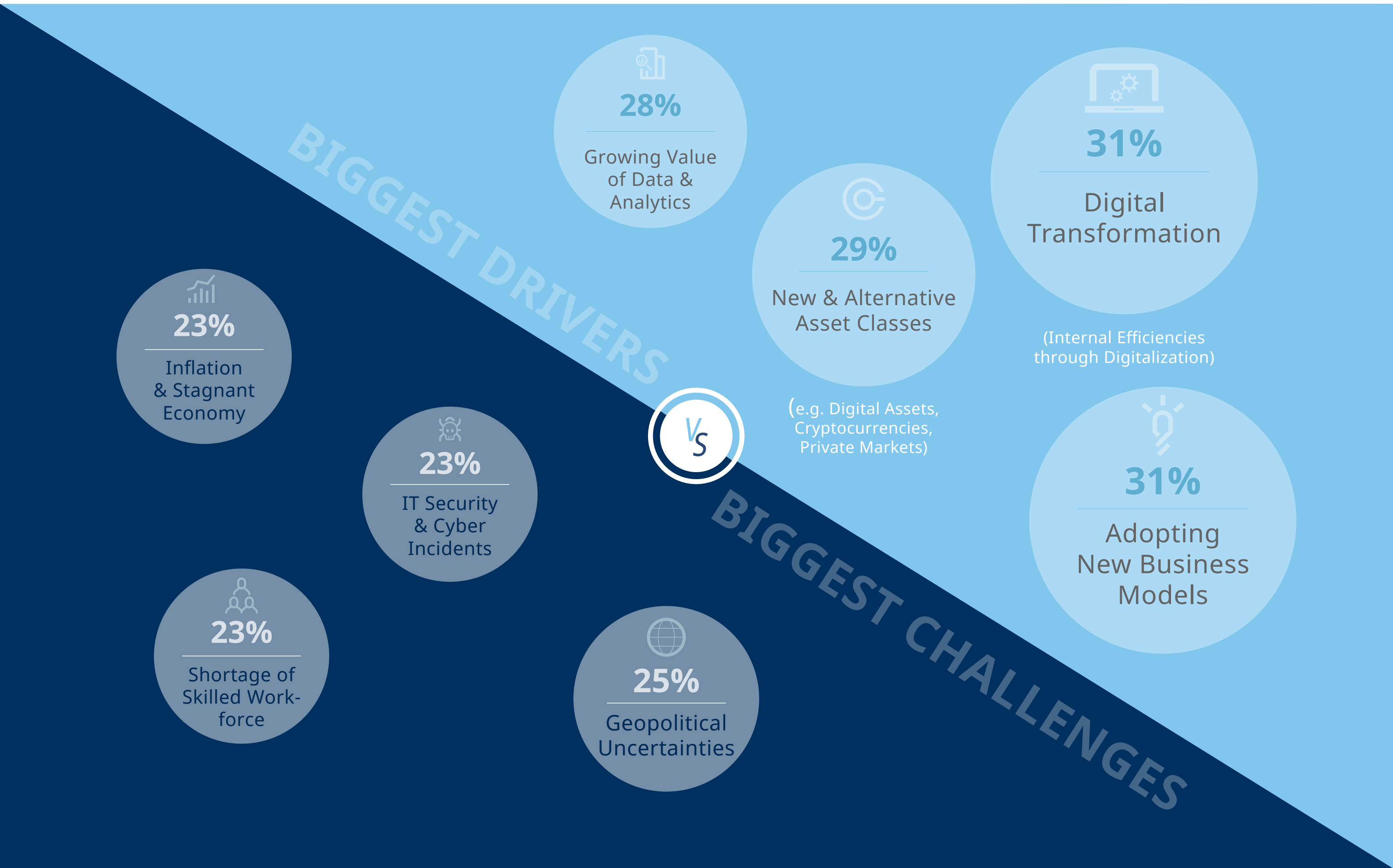
Challenges to Overcome

The potential of geopolitical uncertainties to impede or slow down growth was one of the four most widely recognized challenges among respondents (see overview below). The survey was completed while the Russian invasion of Ukraine was ongoing, and China's position with regards to Taiwan featured heavily in news bulletins around the world. With the practical reality of both events becoming clear in the capital, commodity, and currency markets, geopolitical concerns were front of mind for many. In particular, over a third (34%) of all respondents in the US saw geopolitics as the greatest obstacle on their path to growth – compared to 25% of respondents overall.

Just as digital technologies and digital assets are a key driver for growth, attacks on their integrity and functionality are inevitably a major concern, and IT security is another commonly given challenge to growth. With financial, operational, and reputational damage caused by major cyber incidents seen as a major risk factor, cybersecurity is the top priority for investment, alongside data & analytics and distributed ledger technology.

In addition, inflation & stagnant economy were considered the other biggest challenge for growth reported by the financial institutions represented in the study, as well as shortage of skilled workers, particularly among respondents in the UK, Switzerland, and Singapore. As we discuss in the chapter on future skills, more than half (55%) of companies surveyed said that shortage of skilled workers currently presents a very significant challenge to their organization. However, only 22% said rising interest rates were a challenge.

As noted above, the majority of respondents expect the overall economic environment for their business to improve in the next 12 months. Looking at the bigger picture, we will discuss developments in sustainability, technology, and future skills and how these are contributing to growth strategies across the organizations surveyed.

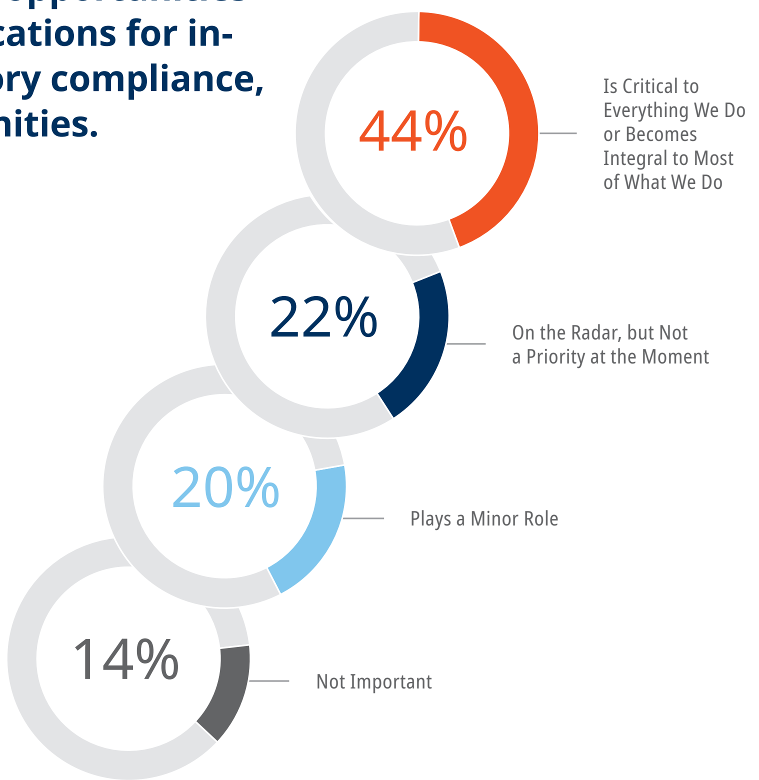


Investing for Sustainability: ESG Gains Traction but Data Gap Needs to Be Bridged

Financial institutions continue to grapple with the increasing scope and pace of ESG developments. Get an insight into what senior executives think are the key risks and opportunities with the consequent implications for investment returns, regulatory compliance, and new business opportunities.

More than two-fifths of financial institutions surveyed (44%) say that ESG-related capabilities and new offerings for clients are either critical to everything they do or are integral to most of what they do. That is twice as many who say that ESG capabilities are on the radar but not yet a priority, and three times more than those who say it is not important at all (see graphic 4).

Retail banking institutions are furthest along the path to developing ESG capabilities: 62% say that they have become critical or integral to their business. In addition, US respondents are more likely to say that ESG capabilities are critical or integral to their business than peers in other regions.



4. HOW IMPORTANT IS IT FOR YOUR ORGANIZATION TO DEVELOP ESG-RELATED CAPABILITIES AND NEW OFFERINGS FOR YOUR CLIENTS?

Drivers and Hurdles

The move towards ESG is motivated by different factors, of which improved brand

5. WHICH FACTORS ARE MOTIVATING YOUR ORGANIZATION TO DEVELOP ESG-RELATED OFFERINGS? (TOP 5 MENTIONS)

reputation, superior long-term returns, client demand, new business opportunities, and regulatory risk management are the most common globally (see graphic 5). The regulatory development can be expected to move up even higher on this trajectory going forward. However, for financial institutions in Hong Kong and Singapore, competitive pressure is still the main driver. When it comes to meeting these varying demands and launching ESG-related offerings, there are a number of common internal challenges. The most commonly cited by survey respondents are technological capabilities, followed by regulatory reporting, identifying product-market need, and demonstrating value, i.e. justifying investment. Each was reported as a key internal challenge by more than a third of survey participants.

For retail banks, however, regulatory reporting is, by some margin, the most common internal challenge to launching ESG-related offerings. More than half (56%) cited it as their biggest challenge. In contrast, implementation challenges are the main internal hurdle to be overcome for both wealth managers and asset servicing businesses.

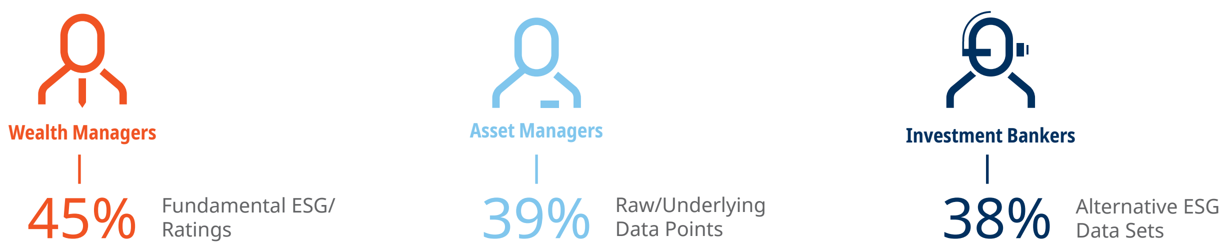
Data Needs

Because the focus on ESG is a relatively recent phenomenon, the current market does not yet have the same level of historical data available as with more traditional asset classes. The maturity of data-related products in the market is widely anticipated by the financial institutions who took part in the survey. In particular, alternative ESG data sets, aggregated ESG data sets, and the raw, underlying data points constitute the biggest data gaps in the market when it comes to ESG-related data products – separate from ESG-related data services (see last paragraph on this page).

There are, however, some differences in focus among different types of institutions (see graphic 6). For wealth managers, the most pressing need is for fundamental ESG/ratings. Among asset managers it is the underlying data points, and for investment banks it is alternative ESG data sets. Asset managers were also most likely to experience a need for specialist or thematic ESG data.

The survey also reveals the key areas where ESG-related data services could help financial institutions to meet their needs. These are: automated regulatory risk management solutions, like data collection, analysis, and reporting in the back office (45%), and portfolio analytics & intelligence tools in the front office (42%). End-to-end solutions such as data collection, mastering & mapping, delivery, and integration (38%) come in third. Among asset servicing companies, automated regulatory risk management solutions (42%) are seen to have the greatest potential impact.

6. FOR WHICH ESG-RELATED DATA PRODUCTS DO YOU FEEL THERE IS A GAP IN THE MARKET THAT IF FILLED CAN HELP MEET YOUR NEEDS THE MOST? (TOP MENTION BY TYPE OF FINANCIAL SERVICE)



The Skills Gap: Collaborative Solutions Move Up the Agenda

In the aftermath of the pandemic, remote working has started to become mainstream, offering more possibilities for people to work outside of the office. From data analytics to more advanced quant expertise, we look at how financial institutions need to ensure employees have an appropriate set of skills to maintain competitiveness.

The shortage of relevant skills is one of the biggest challenges facing financial institutions in the immediate future.

More than half (55%) say the skills shortage is a significant challenge that is already having an impact on their business. That number rises to 74% among respondents in Switzerland. A further 25% of all respondents say it is extremely hard to find the talent they need.

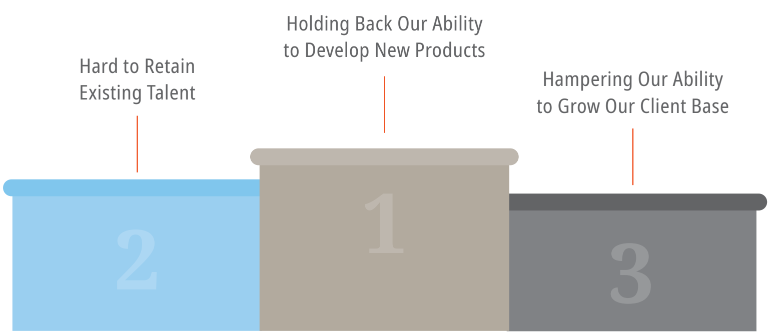
Skills Shortage Impact

The skills gap is already holding back institutions' ability to develop new products and hampering ability to grow their client base. It is also recognized as a vicious circle, with the current skills gap making it harder for organizations to retain the talent they do have (see graphic 7). All these impacts received an approval rate between 26% and 27% among respondents.

In addition, Singapore is the market where the skills shortage is considered to have the biggest impact on customer satisfaction. Among investment banks, the shortage of skills is believed to be one of the main reasons of slowing down their progress on regulatory change programs.

These differences in focus and nuance aside, the overall picture is one of potential growth

7. WHAT ARE THE IMPACTS OF THIS SKILLS SHORTAGE ON YOUR ORGANIZATION?
(TOP 3 MENTIONS)



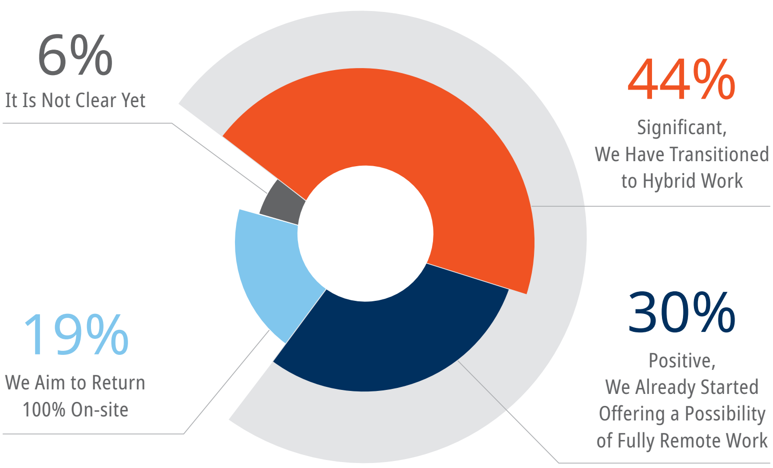
8. WHAT MEASURES IS YOUR ORGANIZATION PREDOMINANTLY EMPLOYING TO PLUG THE GAP OF SKILLS NEEDED? (TOP 4 MENTIONS)

being suppressed as the industry attempts to find new ways to solve a decade-long problem.

Finding the Right Talent

Data & analytics and advanced quantitative skills are highly in demand, although not as much as IT & cyber security. Risk & regulatory expertise is also seen as key, especially in Switzerland. Investment banks also report that the most in-demand skills in their sector relate to expertise in digital assets, distributed ledger technology, blockchain, and cryptocurrencies. These findings come as institutional interest in the cryptocurrency market continues to heat up as more regulatory clarity is provided.

9. HOW DO YOU VIEW THE IMPACT REMOTE WORKING WILL HAVE ON YOUR ABILITY TO ATTRACT AND RETAIN TALENT?



To plug the gap of skills needed, the surveyed financial institutions predominantly prefer headhunting experienced professionals. However, another common strategy is also the most interesting and the most sustainable: establishing strategic partnerships that complement existing in-house capabilities (see graphic 8). Asset managers are taking this one step further by considering the outsourcing of whole functions to specialist providers.

Respondents increasingly recognize that future growth depends on embracing a spirit of partnership and collaboration, building on existing relationships, and asking more of providers of various core and non-core services.

Hybrid and Remote

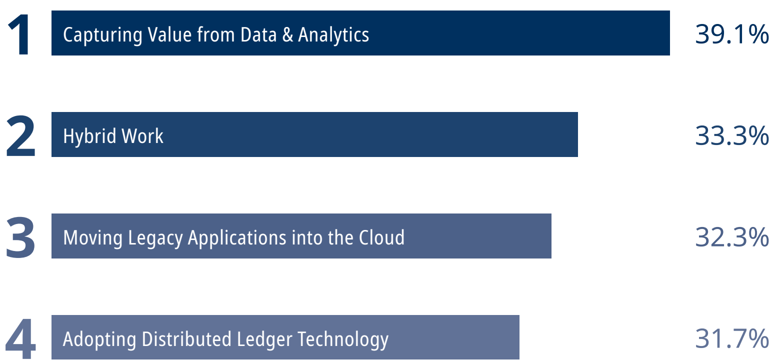
One way to attract talent is to offer more flexible working options. Nearly three-quarters of financial institutions have either transitioned to a hybrid model or are offering a possibility of fully remote working. They expect hybrid or remote working to significantly or positively affect their ability to attract talent. Less than 20% of financial institutions believe that more flexible working options will make no difference and aim to return to fully on-site working (see graphic 9).

The move to new working patterns comes at a time of significant change across the industry, particularly when it comes to technology as we see in the next chapter.

Room for Tech Improvement: Digitalization Increasing as Positive Anticipation Surrounds Distributed Ledger Technology

Technological advancements have profoundly changed the industry. Whether it's the continued shift to digitalization, or the increasing adoption of distributed ledger technology, find out how financial institutions are meeting new technology demands to address upcoming challenges and opportunities.

10. WHAT TECHNOLOGY CHALLENGES IS YOUR ORGANIZATION EXPECTING TO PRIMARILY FOCUS ON IN THE NEXT THREE YEARS? (TOP 4 MENTIONS)



Overall, while technology is clearly an investment priority, there is room for improvement when it comes to overall technological capabilities. Just 36% of respondents believe their current technology architecture positions them "very well" to quickly meet the challenges and opportunities of the next three years.

Investment banks have an above-average level of confidence in their technology: 41% consider themselves to be technologically very well prepared for the immediate future, which is still a minority of the respondents.

Digitalization and DLT Strategies

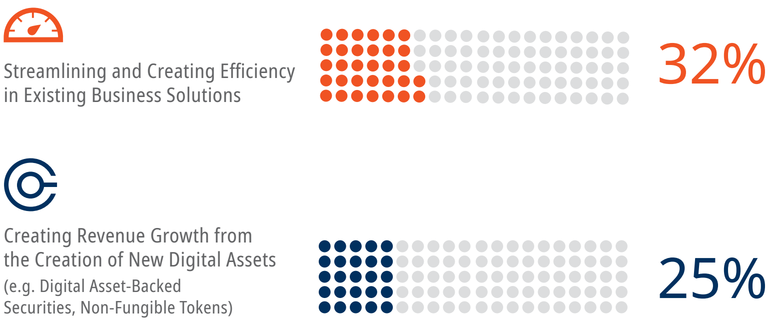
Naturally, technological challenges remain. The most widespread opportunities that organizations will focus on over the next three years are capturing value from data & analytics, incorporating and supporting hybrid working patterns, and moving legacy applications to the cloud (see graphic 10). Among banking institutions, however, the adoption of distributed ledger technology (DLT) is also seen as one of the major technology challenges to be addressed.

Nearly half (48%) of institutions in the US see capturing value from data & analytics to be the most meaningful challenge. In the UK, moving legacy applications to the cloud is considered important by over 40% of companies, while over half (52%) of German respondents are focusing on hybrid working, and Spain is looking to DLT (44%).

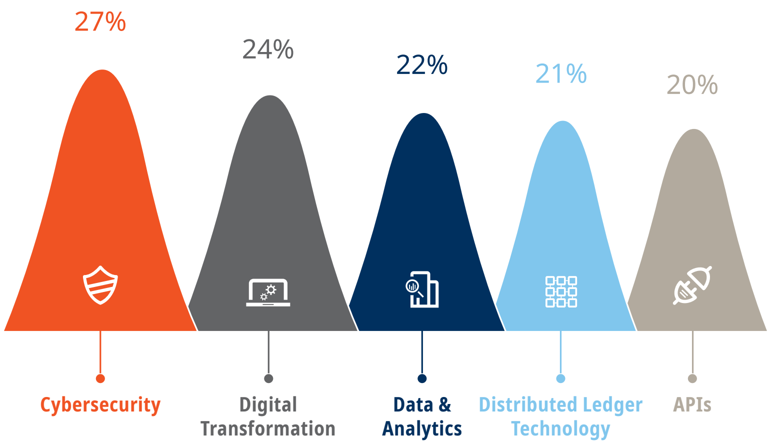
Interestingly, some curiosity around DLT emerged from the survey. More than half (56%) of all respondents consider it to be very relevant to their business over the next three years. An additional 28% say it will be even critical, while those that say it is not relevant at all amount to just 2% of all survey respondents (see graphic 11).

As to where and how DLT will create impact, responses split. Almost a third (32%) of all survey participants say DLT will be the most meaningful to their organizations in streamlining and creating efficiency in their existing business solutions (see graphic 12).

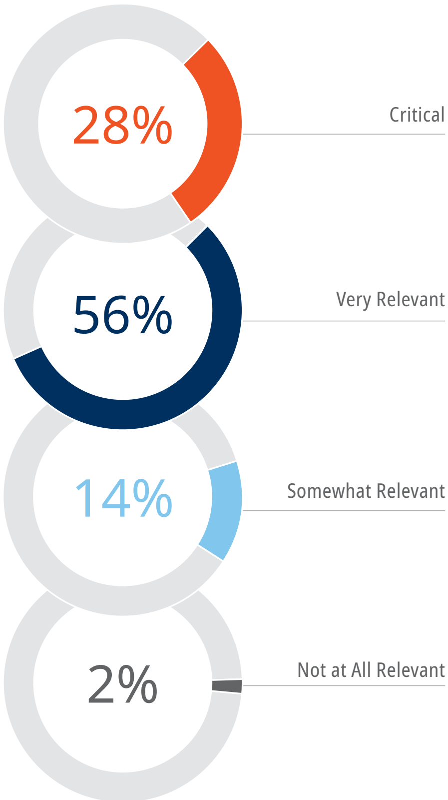
12. WHERE DO YOU THINK THE ADOPTION OF DISTRIBUTED LEDGER TECHNOLOGY WILL BE THE MOST MEANINGFUL TO YOUR ORGANIZATION? (TOP 2 MENTIONS)



13. WHAT ARE YOUR TECHNOLOGY INVESTMENT PRIORITIES IN THE NEXT THREE YEARS? (TOP 5 MENTIONS)



11. TO WHAT EXTENT DO YOU SEE DISTRIBUTED LEDGER TECHNOLOGY-BASED SOLUTIONS AND SERVICES IMPACTING YOUR BUSINESS IN THE NEXT THREE YEARS?



One in four (25%) says it will support revenue growth from the creation of new digital assets such as non-fungible tokens (NFTs) and digital asset-backed securities – in the US market this number rises to 32%. Almost 50% of the financial institutions in Germany say the impact of DLT will be mostly seen in currency-related services.

Investment Priorities

Organizations are directing their technology budget towards data & analytics, as well as DLT and Application Programming Interfaces (APIs), although cybersecurity and digital transformation (the digitalization of internal process and customer experiences) were the two leading areas of budget focus (see graphic 13).

Finally, investment banks say that the prevention of financial crime is a top priority. The surveyed banking institutions consider upgrades to IT banking systems as their top investment priority for the next three years.

CONCLUSION

This study shows how the industry is grappling with a seismic period of change right across the board. Whether it's stability and certainty in the day-to-day functioning of capital markets, or accessing quality data to make faster business decisions and capitalize on growth opportunities, the findings certainly show reasons for optimism.

From the meteoric rise of asset classes, such as crypto, to growing interest in distributed ledger technology, market participants are also having to devise completely new business models to take advantage of constant change. In addition, the ever-evolving macroeconomic climate is demanding new skills to adjust to growing margin pressures, at the same time as more and more financial institutions look to put sustainability at the heart of their investment strategies.

So, with the four-pronged force of growth, sustainability, skills, and technological issues covered across this report – *what exactly do market participants need to do differently to navigate themselves through this ever-changing world?* Having proven capabilities to give results throughout times of change to ensure continuous innovation and delivery is key. To future-proof themselves, market participants must act now to embrace greater industry collaboration and more strategic partnerships with vendors, while also ensuring they are certain of continuous stability, trust, security, and sustainability from their underlying market infrastructure. C-level executives that grasp this thread will be the ones best placed for the *Future of Finance*.

Publisher

SIX Group Services Ltd
P. O. Box
8021 Zurich
Switzerland

+41 58 399 21 11

six-group.com/future-finance