

11:FS research reveals how COVID-19 will reshape financial services to be digital by design

Submitted by: 11:FS

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- Short-term: the crisis has laid bare some fundamental operations flaws, forcing firms to digitise at speed.
- Medium-term: as a recession hits, a domino effect will see firms under immense revenue, capital and costs pressures. Fintech valuations will fall sparking M&A activity.
- Long-term: M&A continues, banks are bailed out. The industry embraces digital technology, creating leaner organisations and new distribution models.

April 23, 2020 - London, UK. 11:FS, the challenger firm defining and building truly digital financial services, today announced new research, "How the COVID-19 pandemic will accelerate digital financial services".

Authored by 11:FS Director of Research Benjamin Ensor and Research Lead Sarah Kocianski, it takes an in-depth look at the issues facing the financial services industry.

The research goes on to examine the medium-term effects of a recession and the shift to digital across banking, investment management and insurance. It concludes with the implications of the long term recovery and reinvention that will be required in the wake of COVID-19, specifically:

- Mergers and acquisitions are inevitable. Faced with falling revenues and a shortage of capital, weaker firms, particularly banks, will be forced into mergers. Acquisitions will occur across financial services, including fintech firms, with a mixture of purchasers including VC and private equity firms, as well as well-capitalised big tech firms.

- Governments will have to bail out failing firms. The longer the crisis lasts, and the more defaults pile up, the more likely it becomes that at least some banks and insurers will risk becoming insolvent. At that point governments will have little choice other than to bail out those firms or risk a systematic collapse of the banking and insurance system.

- Digital partnerships will accelerate. As they strive to cut operational costs to match their falling revenues, firms will look for partners that can provide non-core services more efficiently than they can deliver those services themselves. Expect to see rapid growth in the provision of capabilities like anti-money laundering detection as a service.

- Automation and increased AI use means certain jobs will cease to exist. The pandemic will accelerate changes in what people do as companies rapidly digitise and automate in response to the pandemic. Machines will take on more routine tasks, such as spotting fraud, while other tasks, such as check processing, will be reduced or eliminated entirely by software. Some roles will become obsolete. Administrative roles will be among the first to go.

- Leaner organisations will emerge. Although some banks like Lloyds in the UK have suspended job cuts, in the long term job losses are inevitable as firms are forced to cut their costs in line with lower

revenues. Far fewer employees will be needed in order-taking, clerical and administrative roles. But firms will need to hire for newer roles like software developers, interaction designers and partnership managers.

- Many bank branches will never reopen. Countries such as Italy, Spain and the United States, have far more branches than people really need. Many branches that have been temporarily shuttered, will close permanently as banks and customers realise they are not required for day-to-day banking.

- Firms will develop new digital distribution models. Marketplaces will play a bigger role in product distribution as customers shift to digital channels. Platform-based companies will gain share at the expense of other distributors.

“The COVID-19 pandemic has created an immediate operational crisis in financial services firms that have ignored the digital imperative. They have been caught out by the sudden switch to remote working, the mass closure of branches, contact centres and agencies, and the fundamental flaws associated with paper-based processes,” commented Ensor.

“While so much is still in a state of flux, there are trends already emerging that point to how financial services firms must react. By demonstrating the advantages of being digital by design, the crisis has created the impetus for the whole financial services industry to embrace new ways of working and delivering services to customers.”

The full research can be viewed at <https://info.11fs.com/covid19>.

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About 11:FS

Digital financial services are only 1% finished – we’ve created the team for the next 99%. At 11:FS we’ve assembled the world’s top banking, fintech and insurance leaders to transform traditional banks from within, and build new banking services from scratch. We field interdisciplinary teams bringing the best designers, product experts, consultants, researchers, technologists and domain specialists together to deliver tangible outcomes in the shortest possible time frames. By combining corporate expertise with startup agility in the way we work, the way we think and the way we build propositions, we are uniquely placed to help overcome legacy systems, create new business models, and develop the best next-generation, customer-centric services.