



The financial services industry needs to adapt to changing circumstances on different kind of levels, such as Information Technology, Customer Experience or Regulatory Change. The pace of change will continue to increase and this requires a continuous flexibility and investment on the part of the sector and its IT auditors. Brigitte Beugelaar throws light on the path that the financial services sector will travel and what effects some IT developments will have on this sector and on the IT auditors working there. Furthermore, she will highlight some of the challenges that can be expected and need to be overcome. In what direction will it all move?

# The Impact of IT Developments in the Financial Services Sector

## A Never-Ending Story

**Brigitte Beugelaar**

*What trends do we see in IT developments in the financial services industry?*

The financial services sector has always been a frontrunner in terms of applying IT and IT developments. In the fifties, when automation was introduced, banks for example made use of mainframe systems which took a lot of space in their data-centers. Nowadays, the number of square meters occupied in the data-center is far smaller due to advanced technological developments. And now some banks are even considering cloud solutions to support their business.

But is this sufficient to keep up with the latest technology and business developments? For some big financial services firms it looks as if they have reached a deadlock. The

present complexity and size of the firms threaten to prevent financial services firms from rapidly adjusting to, for instance, Fintech solutions of new entrants in the sector. Financial services firms are perfectly aware that something needs to be done. They even look for cooperation with FinTech companies. One might look upon these firms as disruptive, being unencumbered by outdated legacy systems and having lower costs, but one can also join forces the way UBS JP Morgan, Goldman Sachs and 22 other banks are doing by investing in blockchain company R3 CEV to set up a standardized architecture for private ledgers. Furthermore, it is expected that the Nasdaq exchange will start using a blockchain-based system to record trades in privately held companies. These alliances

or cooperations will facilitate the firms in making the necessary steps to catch up with innovation, and stay ahead of competitors that are lagging behind or are not embracing these new opportunities.

*What are threats or opportunities impacting the financial services industry?*

The World Economic Forum has conducted research regarding “The Future of Financial Services: How disruptive innovations are reshaping the way financial services are structured, provisioned and consumed” (June 2015). This report highlights some interesting developments that will provide either threats or opportunities to banks. Let’s have a look at some of them.

The rapid developments in the

# Financial services firms must exploit their two golden assets: their client data and the trust factor

payment landscape with cryptocurrencies, and the change in attitude of regulators towards these developments, will change the way financial services firms are currently operating. The blockchain construction to cut the costs of remittances is seen as an opportunity. Another development concerns financing: customers are seeking alternative ways, for example crowd funding. In addition, banks are starting initiatives with Fintech companies. ING started a strategic partnership with Kabbage, a leading technology and data platform powering automated lending to small and medium enterprises (SMEs). A loan up to € 100,000 can be requested based on real-time business data in ten minutes. Increased digitalization is not only about cost but also about simplicity in products offered to clients, customer centrality and more standardization in organizational processing.

Moreover, the sector needs to take the increased pressure by regulators into consideration. In the coming decades oversight will tend to become more international, taking place based upon data with the regulators finally tapping in on

financial services firms' systems to conduct the oversight online real-time. Current regulations make it very expensive for banks to service clients. Financial services firms will have to find ways to comply with regulations while continuing to be able to invest and innovate in their service to customers. The new players in the financial services sector are IT companies, among others, being not or hardly burdened with legislation or regulations. Financial services firms need to think outside the box, like being an IT company with an insurance license. This requires a different mindset as well as a different staff composition and different skills.

## *What should financial services firms do and what will be the impact on the IT auditor and IT consultant?*

The key question is, will these firms still exist in 30 years' time? I expect that the need for financial services products will remain; however, the way in which these products are offered to clients and by whom will be different from how it works nowadays. There will be more players in the chain to provide the services. The traditional role of banks, for example, will change. They need to think about being the orchestrator in the chain of providing services to their customers, making use of different providers in the chain. But the "trust" factor will continue to remain important for customers. Let's not forget that financial services firms have two golden assets: their client data and the trust factor. For firms able to cash in on this an excellent future is in the offing.

The IT auditor and IT consultant will also have to adapt to the never-ending change in the financial services industry. They will have to invest in knowledge of blockchain technology, for example. Furthermore, traditional audit approaches will change. Take the Agile/Scrum way of working in developing applications, for instance. This requires the IT auditor to adjust his approach and "walk along" with his client during the project to verify aspects such as internal controls. More automation in the financial services industry also enables the auditor to make use of continuous monitoring systems of the clients instead of performing a "manual" walkthrough of a process.

## References

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