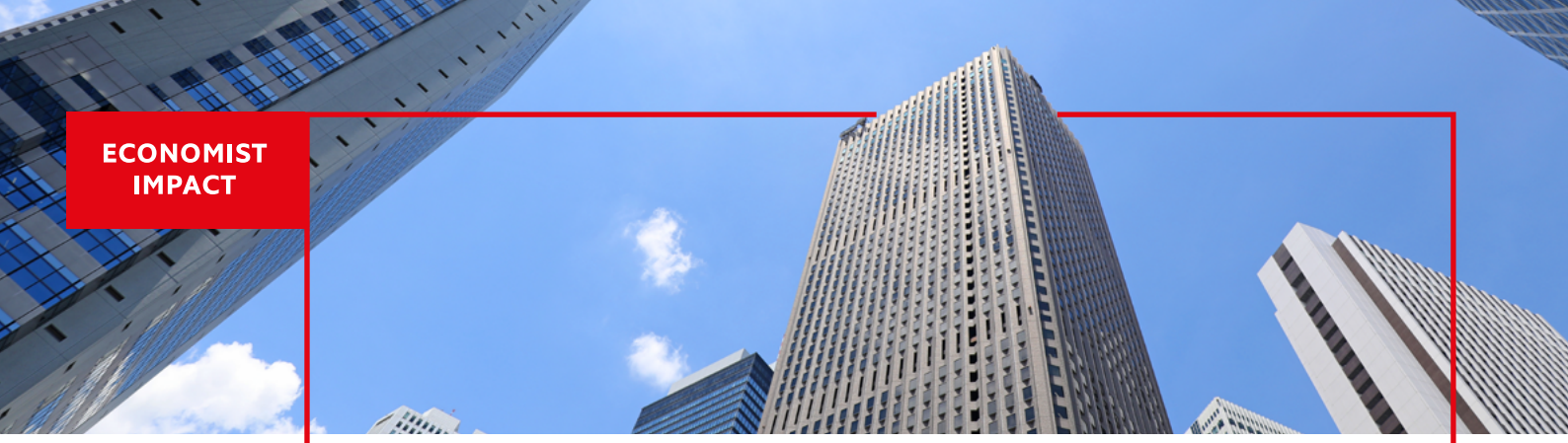

ECONOMIST IMPACT

Financial services industry profile

Value evolution through digital and AI

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The financial services industry is building strong digital defences—as well as embracing the potential of fast-evolving technologies like AI—to maintain its resilience

Financial services has transformed as an industry, with digital applications and chatbots increasingly used to serve the modern customer. Large amounts of customer data are also stored digitally, and while that is making it easier for financial services companies to understand customer needs and tailor their products and services, it is also resulting in an ever-growing need for heightened cyber security.

Economist Impact conducted a survey of senior business executives at companies in North America, Europe and Asia Pacific across six industries to explore the evolving landscape for creating value and resilience in today's business environment. When asked about priorities for advancing their organization's business strategy, respondents in the financial services industry overwhelmingly chose digital assets such as data, websites and IT platforms as their first priority. Financial services survey respondents also pointed to the importance of data protection policies and procedures. Almost half (42%) say that these are business critical—more than almost all other industries surveyed.[1]

"People [in financial services] care enormously about data protection and data leaks", because the consequences of breaches are huge, says Janet Lewis Matricciani, former CEO of World Acceptance Corp, a small-loan consumer finance business. "You can lose your job," she says; or "you can have a class-action lawsuit" if customer data gets hacked.

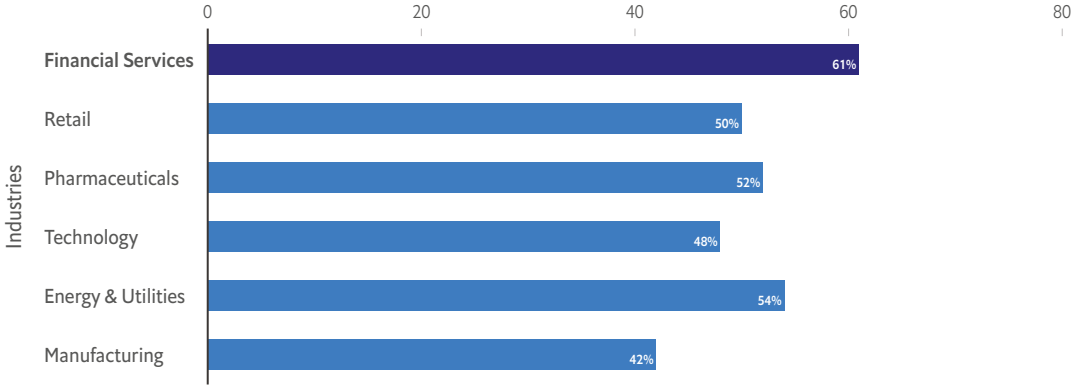
This was seen at global credit-reporting agency Equifax, which was the victim of a data breach in 2017 that exposed the personal information of 147m people. Equifax then spent almost US$2bn as part of its response, creating a settlement fund to help those affected by the breach and completely transforming its technology and security infrastructure. Equifax did not just build an industry-leading cyber security program, it also instituted a cultural shift around risk. Now, the audit and technology committees of Equifax's board meet jointly to review outstanding security- and technology-related compliance and audit findings, and all employees, including the CEO and the board, receive customized mandatory security training at least annually and a monthly security report card.[2]

Due to high-profile breaches like that of Equifax, many financial services companies have invested in building secure digital networks with multiple

[1] Forty-eight percent of Energy and Utilities respondents found data protection policies and procedures to be business critical.
[2] Kristensen I. Managing a cyber risk event: 'Be a student of a crisis'. McKinsey. March 2023. Available from: https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/cybersecurity/managing-a-cyber-risk-event-be-a-student-of-a-crisis

Figure 1: Financial services respondents say that they feel very prepared to respond to cyber risk as the industry continues to evolve and adapt to the risks and opportunities of a digital future.

% respondents that feel 'very prepared' to tackle cyber risks in the next 3 years



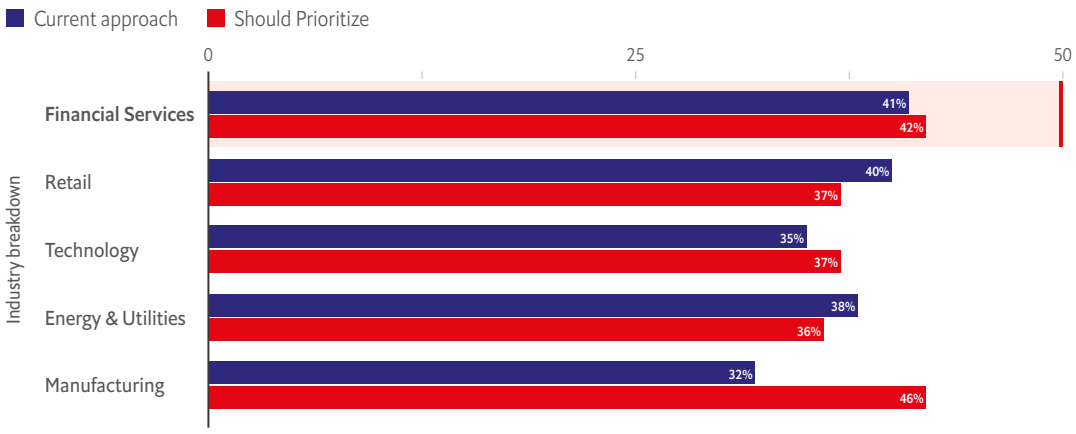
Source: Economist Impact (Question 11. How prepared is your organization to respond to the following in the next three years? Select one answer in each row.)

safeguards for data, as well as training staff on how to protect data and spot efforts by hackers and fraudsters. That work is paying off—61% of financial services survey respondents feel very prepared for cyber risk, more than all other industries surveyed.

The growing connection of digital and physical security

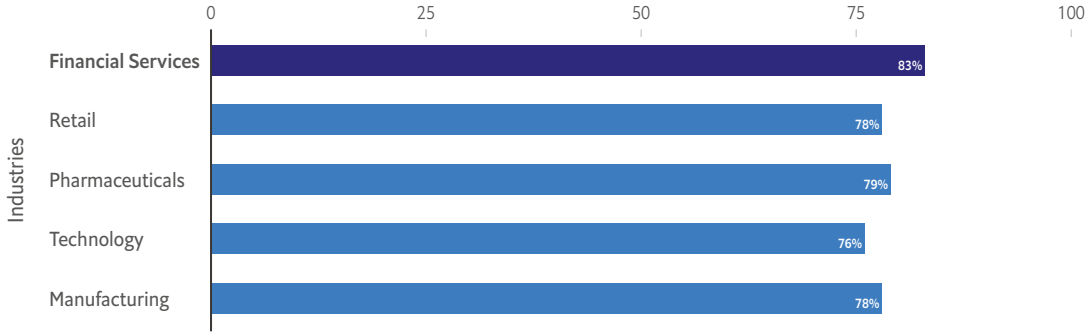
Protecting digital assets is not solely about securing digital infrastructure. There is also a strong connection between physical and

Figure 2: Respondents in the financial services industry say that their organizations identify physical security risks that impact digital assets as part of their digital asset management strategy and believe that their organizations should continue to prioritize this.



Source: Economist Impact (Question 22: Which of the following are aspects of your organization's approach to managing its digital assets (ie, data,website, IT/OT platforms)? Please select all that apply; Question 23: Which of the following do you believe your organization should prioritize mostfor its digital assets? Please select up to 3.)

Figure 3: Financial services respondents said their organizations prioritize emerging technologies like AI, blockchain, 3D printing and Internet of Things.



Source: Economist Impact (Question 14: To what extent does your organization's strategy prioritize the following? Select one answer in each row.)

digital assets.[3] While the threat of a major cyber attack is usually top of mind for security professionals in the financial services industry, other events can be equally catastrophic—Ms. Lewis Matricciani cites the possibility of natural disasters or other physical risks destroying the physical space where company cloud servers and networking equipment are located. With such threats in mind, 42% of financial services survey respondents stated that managing physical security risks that impact digital assets is currently one of the top three strategies for managing digital assets, a greater proportion than among their peers in the energy, manufacturing, tech and retail industries.

AI as the driver of security and opportunity

As artificial intelligence (AI) continues to grow and evolve, so too does its role within digital security in the financial services industry. According to a 2022 report by The Economist Intelligence Unit based on a survey of senior banking executives, fraud detection is the top application of AI.[4]

Using AI to make financial services companies more resilient to fraud and other risks is also creating opportunities to improve customer service. For example, Mastercard uses data on transactions and authorizations to better and more quickly predict and detect fraud, which reduces false positives, meaning that fewer legitimate transactions are stopped and customer experience improves. AI is also used in tools such as chatbots that service basic requests or "smile to pay" identification that makes transactions frictionless.[5]

For Ms. Lewis Matricciani, the power of AI is in its ability to help personalize products and services for banking clients. "Financial services companies are incredibly sophisticated in terms of analytics, in using AI to understand the customer," she says.

Financial services survey respondents clearly see the opportunity of AI and feel prepared for it. A strong majority (85%) believe that AI will have a positive impact on their organization's ability to thrive in the next three years, and a similar

[3] To learn more, please read our report, Building business value: resilience in a rapidly evolving global environment. Available from: https://impact.economist.com/perspectives/economic-development/building-business-value-resilience-rapidly-evolving-global-environment
[4] The Economist Intelligence Unit. Banking on a game-changer: AI in financial services. 2022. Available from: https://impact.economist.com/perspectives/sites/default/files/aiinfinancialservices.pdf
[5] The Economist Intelligence Unit. Banking on a game-changer: AI in financial services. 2022. Available from: https://impact.economist.com/perspectives/sites/default/files/aiinfinancialservices.pdf

number (86%) say that their organization is prepared to respond to AI (considering both the challenges and opportunities associated with the technology).

More so than the other industries surveyed, financial services respondents say that ever-evolving technologies—such as AI, but also blockchain, 3D printing and Internet of Things—are a business-critical or high priority for their organization's strategy.

The use of AI in financial services presents a clear "win-win" opportunity by reducing the company's risk and improving service for the customer. Machine learning and other AI techniques allow real-time analysis of customer transactions to accurately calculate default risks, lowering firms' credit risk and allowing them to offer customers cheaper loans more quickly. For example, in 2020 Barclays partnered with Amazon in Germany, leveraging AI analysis of consumers' online behaviors to offer real-time credit to shoppers at checkout.[6]

By utilizing technologies such as AI, the financial services industry can connect with its customers through personalization of products and services in new and exciting ways. To continue to capitalize on the momentum of such opportunities, the industry must also invest in securing both physical and digital assets in order to strengthen enterprise resilience to cyber threats and risks, and to maintain customer trust. In doing so, the industry would build resilience for a competitive future.

[6] The Economist Intelligence Unit. Banking on a game-changer: AI in financial services. 2022. Available from: https://impact.economist.com/perspectives/sites/default/files/aiinfinancialservices.pdf