Top Trends in Financial Services Product Reinvention for 2021

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Initiatives: Financial Services Digital Business Strategy and Innovation

Rising customer digital expectations and emerging tech and data capabilities will allow FS organizations to move from static products to autoadapting and autocomposing products. FS CIOs should use this trend analysis to anticipate and prepare for product innovation.

Overview

Opportunities

- Products that continually adapt to events and situations will put customers’ needs and desires first and reduce risk, leading to more impactful customer relationships. Correctly and sensitively executed, they will better enable financial service institutions (FSIs) to finally deliver on true customer centricity.

- Autoadapting and autocomposing products will enable FSIs to compete more effectively with new enterprises, reach new target markets and customer demographics, and create new sources of revenue.

- The dynamic way in which these products will use technology and data to respond and adapt to events, will remove costly servicing processes, such as midterm endorsements for P&C insurance contracts.

Recommendations

CIOs engaged in financial services digital business strategy and innovation must:

- Host visioning workshops with executive colleagues to ascertain the enterprise’s appetite for involvement in autoadapting and autocomposing product innovation, and assess the potential impact on technology roadmaps, such as requiring deeper ecosystem integration to support embedded models.
What You Need to Know

The concepts of autoadapting and autocomposing financial services (FS) products build on the need for current banking and insurance offerings to become more personalized and dynamic to compete and stay relevant in a constantly changing market and for continually evolving customer needs. Hoping for the status quo in product and service design is not an option for those FSIs looking to compete.

To deliver high levels of personalization, banking and insurance products will need to sense and adapt to the context and situation of the customer, be that financial, physical or virtual. And as external data-generating sources grow — smart cars, cities, factories and homes — so will the need for FS products that combine in fluid, agile manners, as they compose product sets to address custom-made and specific customer needs.

This hypothesis is compounded by the growth in embedded finance — where financial products are offered to, and consumed by, the customer as an integral part of the main transaction. Think of it as a payment integrated into a taxi journey, a buy-now-pay-later loan integrated into a purchase process or an insurance premium integrated into a subscription-based purchase (such as a car or phone).

It won’t simply be technology driving these changes. As they strive for increased profitability, banks and insurance companies will need to adapt their risk and underwriting models. Algorithms for pricing loans and insurance risk will have access to real-time data describing the “real life” situations their customers are living through. Almost by essence, autoadapting and composing products will be able to capture — and act on — the wider range of datasets available.

- Leverage Gartner’s Annual Eye on Innovation Awards in financial services and Gartner’s Financial Services Ecosystem examples to build a library of initiatives driving changes in FSI products and distribution to track the pace of product innovation and fuel internal conversations.
- Prepare your enterprise for product evolution by developing foundational data science and artificial intelligence/machine learning (AI/ML) capabilities to support new types and forms of data, models and partnerships.
- Accelerate the shift to data-led, intelligent, real-time decision making that such products will require, and specify appropriate data analytics, AI and governance capabilities to support this need.

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To help understand these new product types, Gartner has mapped them to a timeline graphic (see Figure 1). The bubbles indicate the relative levels of data consumption, analytical complexity and API and ecosystem connectivity involved in product delivery.

**Figure 1: FSI Product Evolution Timeline**

Five key variables that will underpin their development:

- Shift from product centricity to service centricity
- Depth of digital customer engagement
- Variety, volume and velocity of data
- Complexity of analytics, including predictive and AI/ML modeling
- Extent of integration into ecosystems within and outside of FS

For more information on this evolution of products, see Note 1.
This research is designed to provide a provocative position on innovative FSI market evolution in the next three to five years. The implications of this trend are far reaching and will impact almost every aspect of the organization. Autoadapting and autocomposing products will:

- Accelerate the current shift of product distribution away from traditional delivery and agent models
- Lead to significant changes in back-office operations and processes
- Drive amendments to regulations or generate new regulatory approvals
- Create new considerations for ethics and conduct for all FSIs
- Impact areas such as finance, audit and procurement; for example, how will FSIs shift accounting models and projections to cater for nonlinear premium or payment collection, or nonfinancial incentives?

The research does not intend to cover all of these aspects, but instead seeks to provide readers with the intelligence needed to prepare for future product innovation, including autocomposing and autoadapting products.

**Profile: Autoadapting and Autocomposing Products**

**Description:**

*Autoadapting products are financial products (and services) that adapt their structure, pricing and delivery to reflect external variables and data points.*

The core proposition would still address a specific financial need, such as insurance coverage or a savings goal. However, the product itself would be able to consume and act on additional contextual data to deliver a more personalized, tailored product for the customer. In most cases of autoadapting products, the customer will have already purchased the product from their FS provider, and will be familiar with the underlying products. They will typically resemble a traditional product in nature, but with a key difference in that they will adapt through ownership.
Contextual data may reference specific ongoing external events, like IoT sensors providing updates on the weather situation, open banking APIs providing insights on concurrent financial transactions or third-party platform integrations delivering insights into competitor activity. Or the data may be specific life events — births, deaths, illness, house move, job change. For example, an FSI using an open API integration with a retailer point of sale (POS) system could track stock levels to automatically adjust insurance coverage based on the seasonal changes in inventory and the type of merchandise being stocked. Stocking highly flammable items, such as fireworks, could automatically trigger a change in insurance coverage.

It is likely that such autoadaption will initially apply to individual products provided by individual FSIs. However, autoadaption may require FSIs to collaborate to deliver such products. Customers would be presented with options to accept the autoadapted changes to products or services as they adapt individual context and situation. On some occasions, though, they may allow the provider of the product to act autonomously.

Where more than one FSI is involved, the FSI providing the subelements of the proposition may be invisible to the customer. For example, a consumer purchasing a new electronic gadget via their credit card could be offered an embedded, white-labeled insurance product from a partner at the point the transaction is registered. Take the example of the fintech (financial technology) firm Revolut, which has partnered with insurtechs (insurance technology) Qover and Wakam to offer embedded insurance policies to its clients.

**Autocomposing products have a different perspective. The timeline for emergence of such products is also longer than for autoadapting products.**

At a demand-and-supply level, Gartner anticipates autocomposing products developing in the five-to-10-year time frame, and only after autoadapting products have become more established. The customer need would be addressed at a real-time level by a series of financial services components that combine, reconfigure and recombine based on external data and customer context. The product or service would be highly dynamic and even predictive, using AI/ML models to determine arising future needs. For autocomposing products, the composition of the product set may require that some or all of the constructs of the product be autonomously purchased on behalf of the customer.
The makeup of the product could be solely from the FSI itself or incorporate products from multiple providers inside or outside of FS. The customer will need high levels of trust in their service provider and advisor to enable them to enact these purchases on their behalf. Think of a retail banking customer knowing throughout their day that their FS provider will be actively helping them save money, plan for expected and unexpected events, protect their data and assets, and insure them against adverse outcomes. Or think of the owner of a small and midsize business (SMB) being able to focus solely on the operations of their business, while all the daily financial risk and payment needs of their business are automatically balanced and addressed. All the while, they are minimizing the costs for the customer.

Central to the proposition would be an intelligent decision engine that will sense and compose the product. The intelligent decision engine may be fronted by a digital advisor that engages and acts on behalf of the customer. It may be under the direct control of the customer, or alternatively the control of the FSI. The focus here is on automatically delivering product changes that align to the customer's objectives and aims. This involves the decision engine balancing risk and price with the potential benefits that will be derived by the customer using the product or service change. In this situation, the product offering moves to an environment of “near perfect” market data — the intelligent decision engine will be aware of pricing, servicing, product capabilities and reviews for all competing products.

In the wider market context, FS providers will require product differentiation to effectively compete. Autocomposing products will offer a level of granular customization for customers that will address this need for differentiation. For example, significant life events like marriages, births or deaths — occurrences such as accidents or job changes — environmental or weather event impacts such as severe storms or financial crises — may all trigger needs for autocomposing products. In these instances, the specific customer needs that arise would be addressed through the composition of a number of different bank- and insurance-focused products into a single, integrated offering. They might include new types of insurance coverage, the adaptation of fees or loan rates, the addition of a new payment capability or even the reallocation of investment funds.

Autocomposing products might introduce enhanced security protocols for customer authentication or reassess or restrict the use of a customer's personal data by external parties. The composition may include totally new products or could simply add additional components to an existing portfolio. FS organizations seeking to attract and retain this customer will need to respond by enabling this composition of an array of contextual and personalized, event-driven products and services.
**Essential Requirements:** Many innovative FS organizations are building strategies to more effectively leverage data to create intelligence across the value chain, becoming what Gartner would refer to as a data-driven or intelligent organization. Both autoadapting and autocomposing products will need access to external data and services (inbound). For distribution, they will need to expose the product/services to customers and partners (outbound). They will develop and grow across these extended digital ecosystems (see Note 1). FS organizations may take a path of seeking to be the sole provider of the autoadapting and autocomposing products, or they may seek to partner with other FS organizations to address a diverse set of events. Open APIs will become foundational capabilities for enabling FSIs to create and participate in ecosystems offering autoadapting and autocomposing products.

Gartner is already seeing significant growth in the availability of open and external APIs, not only within the FSI, but across industries. Sixty-two percent of all organizations responding to the 2020 Gartner Building Digital Platforms Survey indicated that they now have public APIs that are published on the internet and offered freely; up from only 39% in 2018. Ownership and control of products and services becomes blurred, and regulation of the products will consequently become more complex. And importantly, revenue streams associated with the products will become more fragmented.

As well as accelerating their adoption of new and emerging technologies, FSIs will have to work harder on developing digital dexterity. Digital dexterity in enterprises is more about changing behaviors and mindsets than it is about technical understanding. CIOs will need to provide greater exposure of planned technology and digital initiatives to business and IT to create experience-based environments that encourage agile ways of working. They will need to provide employees with the autonomy to safely experiment with digital technologies and engage with partners (see Develop Digital Dexterity to Drive Digital Transformation Efforts).

**Why Trending:** Banks and insurance companies face increasing challenges in delivering against specific customer needs and competing with new challenger institutions. These challenges expose both threats and opportunities for the business. FSI CEOs have continually expressed their desires to grow the business (see 2021 CEO Survey: Financial Services’ Goals to Emerge From the Crisis Faster and Stronger). But this growth cannot easily be achieved with a traditional outlook on products and services. CIOs will need to embrace a different approach to overcome the competition and meet the CEO’s aspirations.
Competitor institutions — both new (neobanks, fintechs and insurtechs) and incumbent industry players (retailers, real estate companies and digital giants) — have deep capabilities in assessing customer needs using artificial intelligence and advanced analytics. These competitors are built on agile core platforms to rapidly design and deliver customized solutions to those customers. The giants, in particular, have huge scale and reach across multiple industries, as well as deep domain expertise in data analytics and AI. They increasingly have a much clearer view of the product and service needs of citizens and corporations, and they continue to embed FS capabilities into the day-to-day lives of their customers. Quite frankly, they know their customers better than banks and insurance companies, and are offering them financial products at appropriate “catalytic” moments, when specific customer needs arise.

Some FSIs have, in the past, looked to create more adaptable products, giving customers the options to flex their products based on life events. This has been offered in a more binary way, where the customer needed to invoke changes themselves. With the rise of connected devices, cities, homes and businesses, there are increased data flows and touchpoints that enable autorealization and derivation of data and events that create a more personalized alignment for products and services.

FSIs need to address these threats from the emergence of embedded finance, where the consumption of a product includes the financial component. As noted above, that may be a payment embedded in a ride-sharing application, an insurance component integrated into a car purchase or a buy-now-pay-later offer integrated into a purchase transaction. What they all have in common is that they address the customer’s financial need at their point of consumption or predict future demand. There is little to no reference to the FSI involved. Using contextual data to adapt financial products to reflect external factors starts to address these challenges. Automatically adapting the financial component, so that it better addresses a specific customer need, equally addresses these challenges. Autocomposition challenges the concept of embedded finance head-on by negating the need for the customer to think deeply about the financial component of any transaction.

**Actions:**

- Examine the flexibility of your core system product engines to support more dynamic, data-driven products by analyzing the extent to which formulas and product makeup can be manipulated by outside factors.
Host visioning workshops, such as scenario planning, to ascertain the enterprise’s appetite for involvement in product innovation, including embedded models requiring deeper ecosystem participation.

Broaden your enterprise data strategy by documenting external data that improves customer intelligence and the events that link to financial decision points to enable the automation of the best actions for addressing client needs.

Map the path to greater product innovation by developing the five most impactful competencies for digital dexterity (business acumen, adaptability, political savviness, fusion collaboration and systems thinking).

Evidence

1 The 2020 Gartner Building Digital Platforms Survey was conducted online during May and June 2020 among 206 respondents working for organizations in North America and Western Europe with at least $1 billion in annual revenue. Organizations were from the manufacturing and natural resources, communications, media, services, retail, banking and financial services, insurance, healthcare provider, transportation and utility industries.

Organizations also had to be working on digital business efforts or have plans to do so; defined as involving IoT, delivery of public APIs, private/B2B APIs, or a combination thereof. Quotas were set to ensure a majority of organizations have a fully implemented digital business initiative.

Respondents were required to have a job title of director or more senior, and to be involved in either digital business, data analytics, IoT- or API-based platforms for partners. In respect to digital business initiatives, they were also required to have a role in either defining technology requirements, investigating or evaluating service providers, or making final decisions.

Results of this study do not represent global findings or the market as a whole, but reflect sentiment of the respondents and companies surveyed.

2 Revolut Relies on Wakam and Qover to Include New Insurance Guarantees, World Today News (Blog).
Digital ecosystems represent how advanced technologies change the way that value is exchanged, what value can be exchanged, the speed at which it is exchanged, and where and with whom it can be exchanged (see The Gartner Digital Ecosystem Framework: How to Describe Ecosystems in the Digital Age).

Note 1. FS Product Evolution

Table 1: FS Product Evolution
(Enlarged table in Appendix)

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Examples
- Fixed deposit savings account
- Term assurance
- Change of address for auto insurance
- Payment break on a mortgage
- Defined events
- Insurance policies
- Healthcare services
- Lifestyle changes based on the number of years until retirement
- Marine insurance using a combination of GPS, weather data and IoT
- Hospitality services to track portable goods in response to anticipated coverage and premia
- Purchase of a new smartphone
- A credit card triggers a nudging to the consumer via their banking app to buy insurance
- Consumer triggers a focus on purchase events through their app on their mobile phone. As they move through that event, the app is constantly using structured and unstructured data to “anticipate” the right products and services for the customer during that planning.
- Automatically providing a margin offer based on financial data
- Triggering home insurance cover on the move in a drone
- Providing a loan for a travelบาง
- Automatically increasing the insurance coverage and adding income protection

Enabling Technologies
- Paper ledgers, calculators
- Banking and insurance core systems, mainframes
- Modern banking and insurance core systems, internal APIs, portals, IIoT, and analytics
- Mobile, portals, external APIs, chatbots, virtual assistants, modern banking and insurance core systems

*DBTP* = digital business technology platform

Source: Gartner (September 2021)

Recommended by the Authors

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**Examples**

- Fixed deposit savings account
- Term assurance
- Change of address for auto insurance
- Payment break on a mortgage
- Defined events for life insurance policies
- Telematics insurance, where the premium alters periodically based on past driving behavior
- Lifestyle pensions where the fund strategy changes based on the number of years until retirement
- Marine insurance using a combination of GPS, weather data and IoT humidity sensors to track perishable goods in transit to autoadapt coverages and premiums
- Purchase of a new smartphone on a credit card triggers a nudge to the

Consumer triggers a house purchase event through their app on their mobile phone. As they move through that event, the app is constantly using structured and unstructured data to “autocompose” the right products and services for the customer during that journey:
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