Future of Finance 2023/24

An Insight into the Minds of Financial Industry Executives around the Globe Regarding Growth, Data and Analytics, Technology, Risk and Regulations, and the Role of Financial Market Infrastructure Providers

November 2023

Foreword

A year has elapsed since we last gauged the perspectives of industry leaders across global financial markets. This may seem a relatively short space of time. After all, most of the macroeconomic factors that troubled financial executives 12 months ago, such as higher interest rates, persist. Today's increased level of geopolitical instability – also a challenge that was highly weighted by respondents in last year's report – was not foreseeable at the time of this year's survey.

That a mere year does make a big difference is evident when we consider the rate of technological progress, digitalization, and regulatory changes witnessed over recent months. As shown in the following report, advancements in artificial intelligence (AI) as well as advanced data and analytics are perceived as a tremendous opportunity by executives across the globe – with momentum building and curiosity growing as to how these developments can be meaningfully applied. Novel business models are emerging at an exponential rate, digitalization is transforming the way organizations approach age-old processes, and the rapid development of AI will progress.

Amid this increasingly complex outlook for global markets, financial institutions showed growing optimism when asked about their expectations for the future in September 2023. Market participants are increasingly confident about their own prospects for growth over the coming years, and many are now taking meaningful steps to capitalize on it.

At this decisive moment for financial markets, the role of key financial market infrastructure providers has seldom been so crucial. They must adapt rapidly to the changing behaviors of capital markets companies if growth is to be fully realized. The future of finance is now, and the next chapter will be fundamental in determining how this story of capital market transformation and technological innovation unfolds.

Jos Dijsselhof
CEO SIX

EXECUTIVE SUMMARY

Welcome to the second annual study in the *Future of Finance* series by SIX – a barometer of the future expectations of business executives operating across the global financial markets. It reveals a sense of growing optimism as companies gear up for growth.

Despite several political and economic headwinds persisting globally, financial executives are steadily growing more optimistic about their prospects for growth – a key finding unearthed in this *Future of Finance* study by SIX.

More than three-quarters of companies expect the economic environment to improve over the coming year, with survey participants operating in the US, Spain, and Hong Kong most bullish. Growing positivity is also reflected in how companies view their respective positions for growth, particularly among respondents in the US, Singapore, and Switzerland. While the EU region and the UK are relatively less enthusiastic, it is worth noting that, overall, nearly two-thirds of executives feel strongly positioned for significant growth. Positivity is also felt across all institution types, with the wealth management and asset servicing sectors markedly more optimistic than last year.

It will come as little surprise that artificial intelligence (AI) is seen as the most powerful catalyst for growth among respondents. While several risks are flagged, along with differing views at the institutional level as to where AI can offer the most value, most companies are prioritizing its integration over the coming years. The opportunities presented by alternative assets – including digital tokens, private markets, and infrastructure – as well as advancements in data and analytics, are also emphasized by companies, particularly those operating in investment banking and asset management. Meanwhile, there is an indication of growing demand for banking services across Asia. This could be a precursor to similar developments further afield in the realms of embedded finance, open banking, and banking-as-a-service in the near future.

Executives also identify several challenges that threaten growth. Incoming regulatory changes, systemic global financial risk, and geopolitical uncertainties are the three most cited concerns. The fact that executives consider regulatory changes and systemic financial risk as simultaneous challenges is somewhat paradoxical. It may suggest there is a growing appetite among financial institutions to trade and collaborate with established, regulated financial market infrastructure providers.

The potential implications of the shortening of the settlement cycle to T+1 in the US proves debatable. While many respondents foresee it unearthing opportunities to automate processes, increase efficiency, and reduce costs, a significant portion of companies fear it could result in a higher rate of settlement failures. Whatever the outcome, it will remain closely scrutinized by overseas markets following its implementation.

Whether companies are successful in navigating this increasingly complex market landscape will depend on several factors, from how effectively they can integrate emerging technologies, to the rate at which market regulators and financial market infrastructures can adapt to the swiftly evolving market environment. Nevertheless, one thing is certain – institutions must act. The future of finance is now.

Survey Framework

For the annual *Future of Finance* study, Censuswide on behalf of SIX surveyed C-level executives across 343 international financial institutions covering asset management, wealth management, asset servicing, retail banking, and investment banking, in the UK, the US, Hong Kong, Singapore, Germany, Spain, and Switzerland. The survey was carried out between September 11 and 18, 2023, and was comprised of a total of 20 questions across five key topics: growth, data and analytics, technology, risk and regulations, and the role of financial market infrastructure providers. The findings expressed in this report are therefore reflective of the attitudes held by respondents during the time period in which they were surveyed.

Optimism Builds across Financial Markets

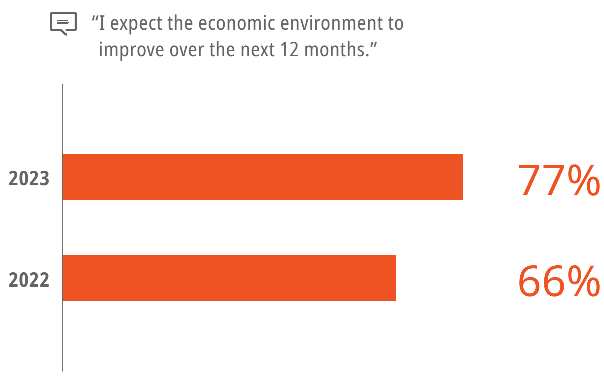
Read how global financial institutions view the current economic outlook, as well as the key opportunities and challenges they foresee emerging over the coming three years and beyond.

After a tumultuous few years for financial markets, senior executives across the global banking and finance sector appear to be increasingly optimistic about their prospects for growth. Over three-quarters (77%) of respondents expect the economic environment to improve over the coming year, up considerably from two-thirds (66%) in 2022 (see graphic 1). Moreover, less than 2% of respondents foresee economic conditions declining over the next 12 months.

From a geographic perspective, the US, Spain, and Hong Kong are most bullish on the economic outlook, with as much as 83% of respondents in North America expecting it to improve. Several economic factors could be responsible for the favorable outlook in the US, with more robust new jobs figures and slowing inflation reports emerging. At the institutional level, the retail banking sector is most optimistic, with 88% of the sub-sector expecting economic conditions to improve.

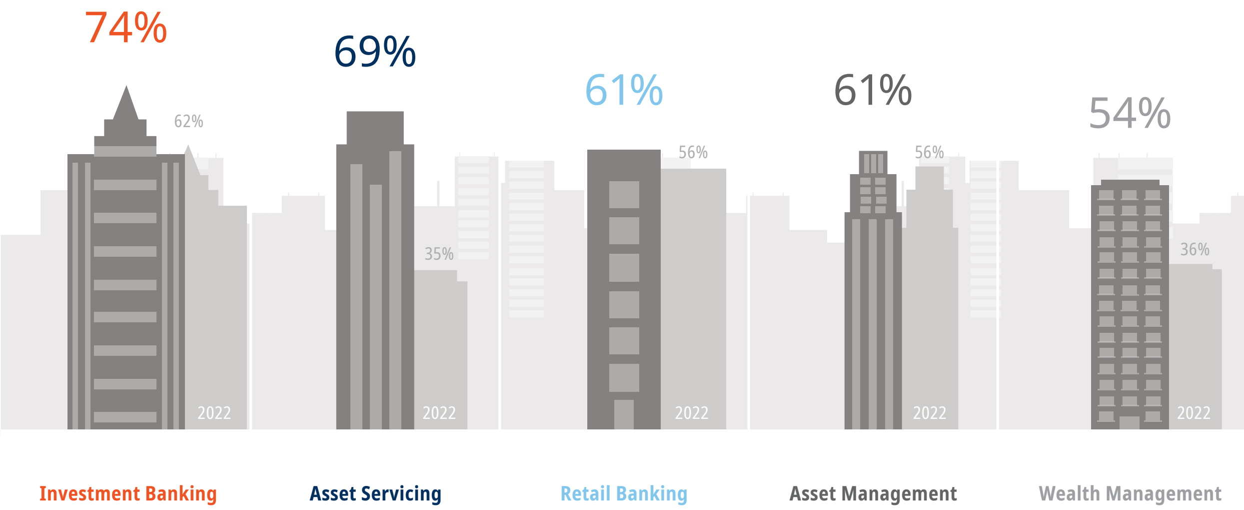
Growing levels of optimism among respondents are also reflected in how companies view their respective positions for growth over the next three years. Globally, a considerable 64% of companies feel they are strongly

1. HOW WILL THE ECONOMIC ENVIRONMENT CHANGE AND HOW DO YOU ASSESS YOUR POSITION FOR GROWTH?



2. HOW DO YOU ASSESS YOUR POSITION FOR GROWTH? (By Type of Organization)

"Our organization is strongly positioned for significant growth over the next three years."



positioned for significant growth – up meaningfully from 51% in 2022 (see graphic 1). Businesses headquartered in Switzerland, Singapore, and the US are most bullish on their prospects for growth, with 72%, 71% and 70% of respondents in these regions, respectively, stating they are strongly positioned. While companies headquartered in the EU and the UK are somewhat less optimistic, they are by no means pessimistic.

From an institutional perspective, the asset servicing and wealth management sectors are much more optimistic than last year, with 69% and 54% of respondents in these segments, respectively, feeling well positioned – up from just 35% and 36% in 2022 (see graphic 2).

Factors Fueling Growth

With regards to the themes set to drive growth over the next three years, identifying and implementing artificial intelligence (AI) is seen as the most compelling opportunity for companies, selected by 38% of respondents globally (see graphic 3 on page 6). This is somewhat unsurprising given the emergence of generative AI innovations like ChatGPT and Google's Bard over the last year, as well as various supportive factors accelerating the development of AI. These include greater computing power, cloud computing, and open-source libraries, among others. However, enhancing high-quality data and analytics capabilities is nearly as popular, chosen by 35% globally. We can see a manifestation of this trend in the global payments industry. As highlighted by a recent EY study, payment data enhancements like transaction enrichment are becoming a key factor, enabling more powerful analytics and greater data monetization.

Enhanced data capabilities are also seen as the biggest growth driver in the UK, with over half (53%) of companies selecting this category. In addition, it is cited as one of the top three drivers of growth among asset management and investment banking companies. Executives are also strongly convinced of the potential posed by data to drive the development and integration of breakthrough AI innovations – a subject explored in greater depth in subsequent sections. What is clear is the increasing prominence of technology in the financial sector, which is closely linked to its growth opportunities.

Another commonly cited theme – particularly among the investment banking and asset management sectors – is the growth opportunity presented by alternative asset classes, including digital assets, private markets, and infrastructure. The asset management space is the most enthusiastic around alternative assets, with a considerable 41% feeling they represent the biggest opportunity for growth. Evidence of this is visible in the ongoing consolidation drive playing out in the funds industry – according to a recent report

“SMEs constitute a significant portion of many major economies’ GDP, which is why ensuring their access to a wide variety of robust funding sources must remain a top priority. Indeed, as companies grapple with tighter credit conditions globally, capital markets have a crucial role to play in enabling companies to access financing through stock exchanges and to scale sustainably.”

Jesús González-Nieto
Head BME Growth,
Exchanges, SIX

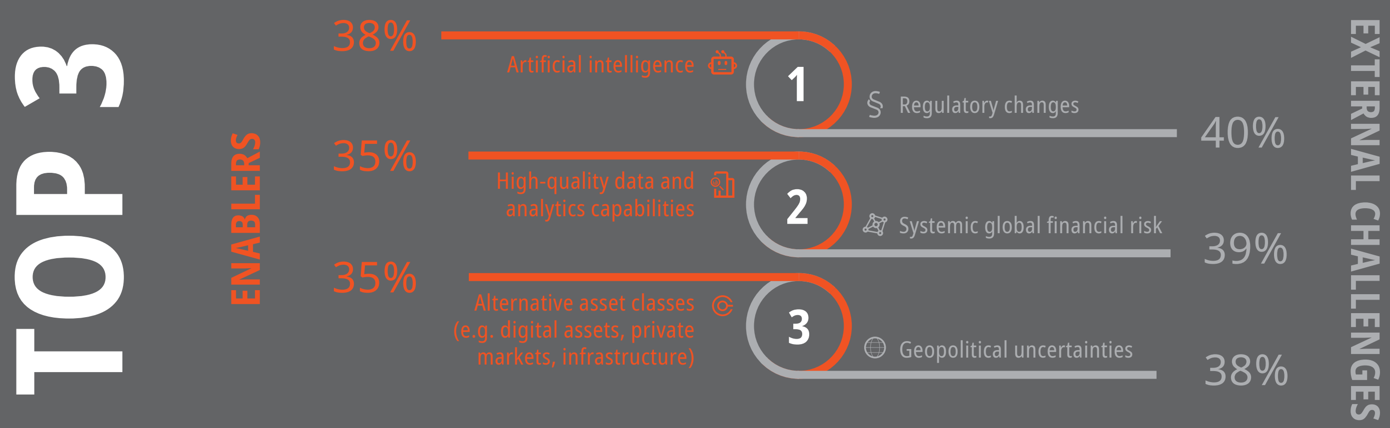
from PwC, one in six asset management groups is set to disappear by 2027. Larger investment companies are actively seeking to acquire boutique specialist asset managers, aiming to operate them at a larger scale. This strategy provides fee-based advantages and helps meet growing investor demand for access to high potential areas like digital and tokenized assets.

Banking-as-a-service (BaaS) and embedded finance are another popular growth theme. It is the most cited growth driver among companies based in Hong Kong and Singapore, selected by 42% and 39%, respectively. This may be driven by the prevalence of “super apps,” which make it easier to embed financial services and thus help banks engage with clients via BaaS. BaaS and embedded finance are also cited in the top-three growth enablers in Spain and Switzerland, providing evidence that this this trend is reaching Europe.

Conflicting Concerns
Regulatory changes, systemic global financial risk, and geopolitical uncertainties are the most cited concerns. This may suggest that, while market participants are apprehensive around upcoming regulatory changes, they align with the consensus among market authorities that systemic risk is a growing threat. This might indicate increasing appetite among financial institutions for a wider variety of assets to be traded on regulated exchanges, which are typically more insulated against systemic risk than over-the-counter markets. In addition, directing more businesses towards capital markets to satisfy their financing requirements may help reduce the impact of higher interest rates on financing costs.

As for the global listings environment, there is a growing belief among respondents that small and medium-sized enterprises (SMEs) are increasingly looking to public markets to raise capital. While larger companies are expected to account for the majority of equity listings in the next three years, 38% of respondents globally believe SMEs will contribute to new listings, with nearly a quarter (23%) expecting listings predominantly from SMEs. Respondents from the UK, the US, and Spain hold this view most strongly, selected by 33%, 29%, and 23%, respectively. •

3. WHAT ARE THE BIGGEST ENABLERS / EXTERNAL CHALLENGES FOR YOUR ORGANIZATION WHEN IT COMES TO GROWTH?
Pick up to three answers



Front Office Is Front of Mind as Data and Analytics Evolve

There is perhaps only one thing larger than the quantity of data institutions now consume – the size of the challenge they face in fully capitalizing on it. But for those that succeed in doing so, the rewards may be enormous. Read where market participants anticipate the greatest opportunities and challenges will arise as data and analytics evolve.

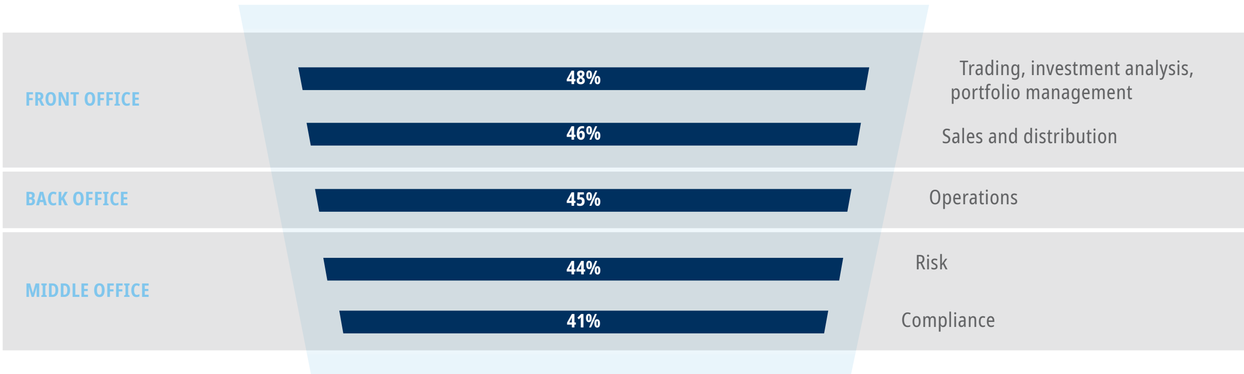
As data and analytics capabilities continue to grow increasingly sophisticated over the coming years, it appears financial institutions believe the front office stands to benefit the most from these advancements (see graphic 4). Almost half of executives see emerging data analytics providing the front office with the greatest benefits over the next five years. Trading, investment analysis, and portfolio management rank the highest (48%), followed by sales and distribution (46%) – all of them being front-office tasks. Back-office and middle-office operations show slightly lower attributions when it comes to benefits of artificial intelligence (AI).

The front office of financial institutions is responsible for carrying out the most valuable, revenue-generating tasks, including trading, conducting market analysis, and executing the investment strategy. As such, these findings indicate executives hold strong conviction in the strategic opportunity posed by enhancing data and analytical capabilities. Beyond merely increasing operational efficiency and reducing costs, it is seen as a direct contributor to how companies outperform their competition, enhance returns for customers, and deliver organic growth.

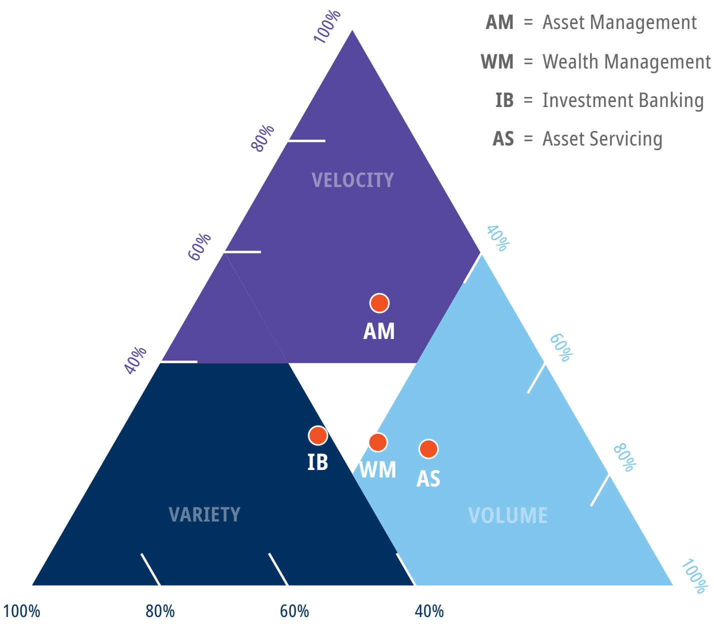
This is further reflected by where companies anticipate allocating the most financial resources on data and analytics moving forward. Market and pricing data – used predominantly to inform front-office decisions – is where respondents

4. WHERE DO YOU SEE EMERGING DATA ANALYTICS PROVIDING THE GREATEST BENEFIT WITHIN YOUR BUSINESS OVER THE NEXT FIVE YEARS?

Pick up to three answers



5. WHERE DO YOU FACE THE BIGGEST CHALLENGES IN ENABLING DATA TO DRIVE GROWTH THROUGH ENHANCED ANALYTICS? (By Type of Organization)



feel they will see the largest increase in spending, opted for by 43%. Within the capital market industry, the wealth management and the asset servicing sector hold this view most strongly, with 49% and 44% expecting to increase their spending in this area, respectively.

ESG data is another area in which executives expect to see large increases in spending, particularly within developed economies. It is the most popular area among respondents in the UK, the US, and Hong Kong, while also scoring within the top-three areas in Spain and Switzerland. This is indicative that companies operating in nations more advanced in ESG investing are prioritizing spending on ESG-related data and analysis to ensure they can seize the opportunity at hand.

Data Hurdles to Overcome

While companies are generally confident around evolving data and analytics, all executives highlight scope for improvement in their data supply chain. These vary according to sector, which reflects the differing nature of work in their respective fields, as well as the unique needs and preferences of their clients (see graphic 5).

The asset management segment views velocity of data as the primary challenge in enabling analytics to drive growth, selected by almost half (49%) of respondents – about twice as many as those selecting volume or variety of data. Data velocity refers to the speed at which data is generated, collected, and distributed, which is of paramount importance in the fund management industry. Given that asset managers invest in and distribute products from a broad array of fast-moving asset classes, access to near real-time market and reference data can make the difference between outperforming or underperforming the benchmark.

Meanwhile, wealth managers are most concerned with the large volumes of data they must process, cited by 40% of respondents. For investment banks, the key challenge surrounds the variety of data (41%) – somewhat unsurprising given the many services investment banks offer clients, as well as the extensive regulatory reporting requirements they must adhere to. •

“To effectively gain a competitive edge in a data-driven world, companies require a combination of advanced technology, data management practices, regulatory compliance, and a deep understanding of the financial domain. Indeed, data and analytical capabilities have never been so strategically important.

While different industries face very different challenges with regards to their data, ease of access and the ability to analyze and derive insights from data will be of paramount importance to all players over the coming years. Without this, companies risk failing to remain competitive in an increasingly data-dependent landscape.”

Shai Popat
Head Product and Commercial Strategy,
Financial Information, SIX

The Age of AI: Efficiency Not the Only Driver

Few technologies have garnered as much media attention in their infancy as the emergence of generative artificial intelligence. But will it radically transform financial markets? Discover where financial institutions believe artificial intelligence and a host of other technologies could deliver the most value over the coming years.

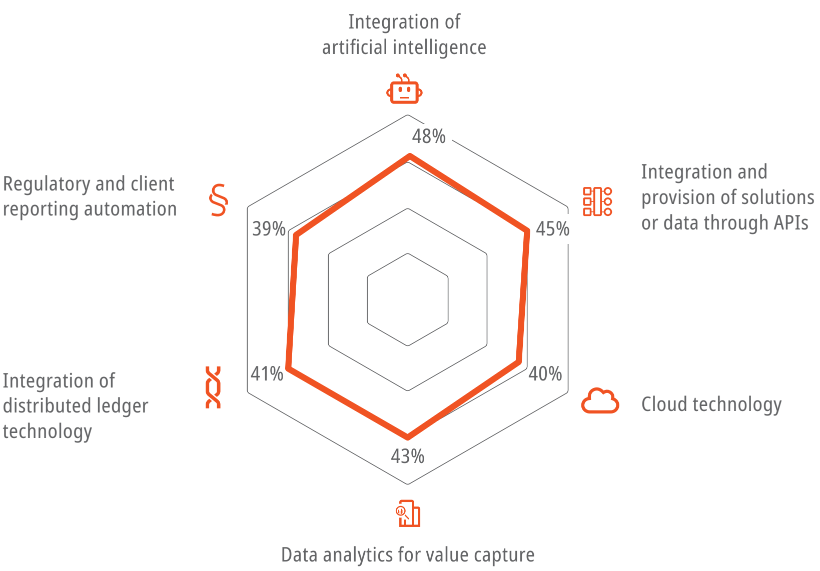
It will come as no shock that integrating artificial intelligence (AI) in its different forms or subsets is now the primary focus for financial market institutions, with almost half (48%) of respondents citing it as a top priority over the coming three years (see graphic 6). Indeed, only 6% of respondents do not expect their company to meaningfully incorporate AI as a tool within this time frame.

Nevertheless, AI is by no means the only technology companies are focusing on implementing. The integration and provision of solutions or data through APIs is also seen as a focus area for many companies, with as much as 45% of respondents choosing this option overall. This use case is the priority for investment banks, with 47% of respondents in this field selecting it.

There is a notable degree of disparity at the institutional level over which technology must be prioritized moving forward. For asset managers, data analytics for value capture seems to be the focus, chosen by an overwhelming 58%. It is also worth flagging that the investment banking sector feels the integration of AI represents a less urgent focus (36%) than, for example,

6. WHAT TECHNOLOGY DOES YOUR ORGANIZATION PLAN TO FOCUS ON IN THE NEXT THREE YEARS?

Pick up to three answers



“By implementing sophisticated data strategies and robust infrastructure, organizations are laying the groundwork for the seamless integration of AI, which promises transformative opportunities. A deep understanding of data underpins AI’s potential to deliver accurate and valuable insights. In the data-intensive world of capital markets, this attention to detail becomes a powerful asset, where precision in data handling can have a significant and positive impact when AI is deployed at scale.”

Berta Ares Lomban
Head Program and Innovation Office,
Financial Information, SIX

the integration of distributed ledger technology (DLT), which is opted for by 45%. This may be attributable to DLT having reached a more mature stage of its development, thus offering more established use cases within sell-side institutions. Indeed, DLT has already proven its ability to disrupt several key processes within investment banks, including FX settlement, bond issuance, and custodianship services.

Multifaceted AI Advantages

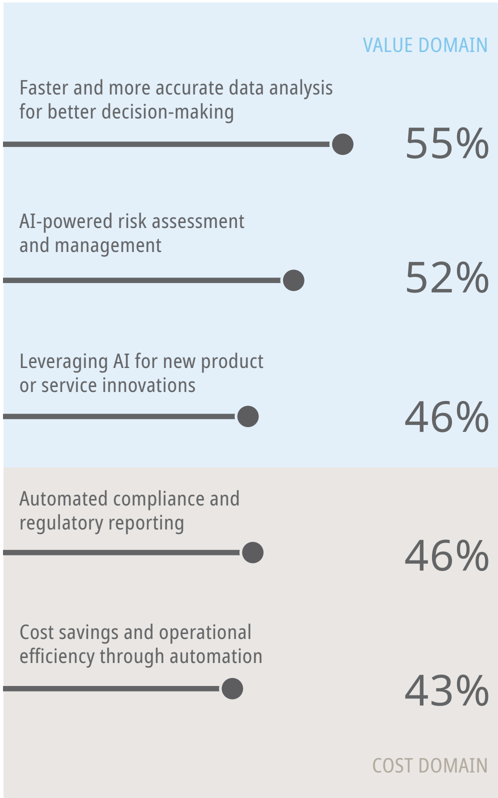
For companies that are focusing on AI, faster and more accurate data analysis for better decision-making is seen as the area in which it will deliver the most client value, with well over half (55%) of respondents taking this view (see graphic 7). The asset management, asset servicing, and investment banking sub-sectors feel this most strongly, chosen by 58%, 57%, and 56% of respondents in these fields, respectively.

Increased cost savings and operational efficiency, however, is the least selected potential benefit of AI in terms of enhancing client value. This may suggest companies view AI more as a strategic tool for outperforming competitors through added value, rather than merely a cost reduction technology. This could also indicate companies are anticipating a meaningful delay before any cost savings resulting from the implementation of AI can be realized. After all, despite AI’s versatility and rapid evolution, constructing the necessary infrastructure to support its deployment is initially costly and time-consuming for companies.

Respondents were also questioned where they believe financial market infrastructure providers might offer the most value through the adoption of AI. The two most popular responses are cost reduction and operational efficiency, at 28%, and improved settlement and clearing processes, at 27%. This contrasts starkly with where companies feel AI will deliver the most value within their own business, with cost savings low on the list.

7. WHERE DO YOU ANTICIPATE DELIVERING THE MOST CLIENT VALUE THROUGH AI ADOPTION IN YOUR ORGANIZATION OVER THE NEXT THREE YEARS?

Pick up to three answers



There is, however, some deviation between sub-sectors over where financial market infrastructure providers (FMI) will see the most value through AI. The asset management space, for instance, believes AI will offer FMIs the most value by enhancing settlement and clearing processes. This may be in anticipation of the shortening of the securities settlement cycle in the US, which is covered in greater detail in the following section. Improvements in the predictive market insights FMIs offer are also anticipated by respondents across many sub-sectors, affirming the view that enhanced data analytics capabilities are growing increasingly valuable for front office operations.

Differing Opinions on T+1

With historic changes to areas like securities settlement fast approaching, discover what the consequences might be for market participants, and which wider regulatory changes are on the radar for companies over the coming months.

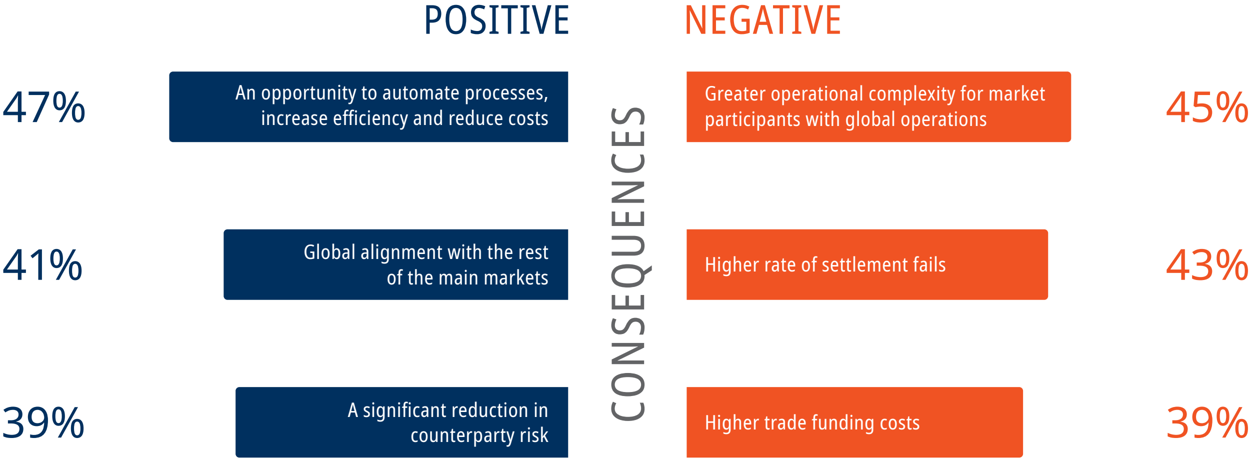
There are several meaningful regulatory developments ongoing across global jurisdictions. Perhaps the most prominent discussion in financial regulation right now revolves around the implications of the shortening of the securities settlement cycle to T+1 for US securities. It appears the debate will only grow louder over the coming months, as executives remain ambiguous over its potential consequences (see graphic 8).

While 47% feel it could provide a positive opportunity to automate processes, increase efficiency, and reduce costs, many also believe it will create greater operational complexity for global institutions, with 45% citing this as a possible consequence. While North America is moving to T+1 in May 2024, discussions in the EU, the UK, and Switzerland are in their infancy with regards to T+1 in these regions. As a result, there will be different settlement cycles between North America and Europe over the near to medium term, which may explain why many respondents anticipate greater operational complexity. There is also uncertainty regarding whether the EU, the UK, and Switzerland will transition simultaneously or at different times, or if they will adopt T+1 at all.

Many believe T+1 could be a source of a higher rate of settlement failures – an implication chosen by 43% of respondents. At the institutional level, asset managers are most concerned by

8. WHAT DO YOU SEE AS THE MAIN CONSEQUENCES GLOBALLY FROM THE IMPLEMENTATION OF T+1 SETTLEMENT FOR NORTH AMERICAN SECURITIES?

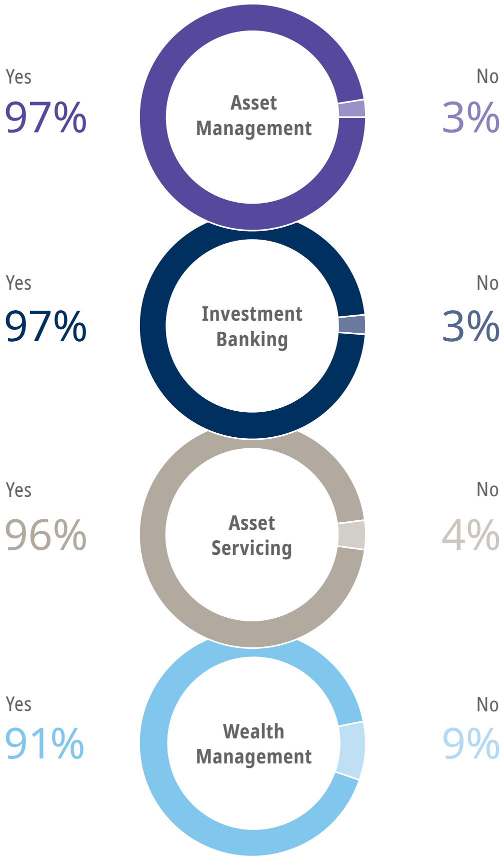
Pick up to three answers



"It remains to be seen how the transition to T+1 will impact markets, with the move posing unique challenges to every region and financial institution. With this in mind, key market infrastructure entities including regulated exchanges, central counterparties and central securities depositories will play an increasingly pivotal role in facilitating a smooth transition and fostering the collaborative efforts necessary to manage its impact."

Jesús Benito
Head Domestic Custody & Trade Repositories Ops.,
Securities Services, SIX

9. DO CENTRAL COUNTERPARTIES HAVE A GROWING ROLE TO PLAY IN REDUCING RISKS IN FINANCIAL MARKETS FOR NEW AND EXISTING ASSET CLASSES?



settlement failures, selected by 59% of this group. A considerable 44% of investment bankers also see this as a threat.

Wider Regulatory Challenges
Looking beyond T+1, financial institutions view the following three regulatory challenges as most critical over the coming decade: managing risks associated with fintech and innovations, data privacy/protection, and regulation of crypto and digital assets. These were selected by 46%, 44%, and 43% of respondents, respectively.

As highlighted in the first section, companies are increasingly looking to delve into innovations like digital assets and distributed ledger technology to fuel future growth, which will unearth new risks and regulatory challenges also covered in the Cornerstones for Growth report from SIX. Financial market infrastructure providers may play an increasingly vital role in this context. By serving as trusted intermediaries and implementing rigorous vendor risk management and data privacy measures, FMIs can safeguard companies' operations and protect sensitive information. As such, FMIs can provide more secure access to emerging asset types like digital tokens and cryptocurrencies. This will be discussed in greater detail in the following section.

Amid this changing regulatory backdrop, the overwhelming majority (95%) feel central counterparties will have an increasingly important role to play in reducing risks in markets over the decade to come, for both new and existing asset classes. This is consistent not only across geographies, but among all institution types (see graphic 9).

"As highlighted by our Cornerstones for Growth report launched earlier this year, there is growing desire among investors to trade digital tokens on institutional platforms with clear regulatory oversight. We believe our success in becoming the first regulated exchange to offer digital assets will catalyze further adoption, leading to more innovation."

David Newns
Head SIX Digital Exchange

The Evolving Role of Financial Market Infrastructure Providers

As financial institutions navigate an increasingly complex market landscape characterized by disruptive technologies, changing regulations, and elevated geopolitical unrest, financial market infrastructure providers (FMIs) have a substantial role to play in maintaining stability. Read where FMIs might provide the most value over the coming months.

There is clear consensus across both geographies and institutions that financial market infrastructure providers (FMIs) will become increasingly systemically important in the future, agreed upon by 91% of respondents. One of the principal responsibilities of an FMI is, of course, to uphold financial market stability. Therefore, a fair interpretation of these findings is that participants may be attaching greater significance to the role of FMIs in minimizing systemic risk. This is of paramount importance amid periods of pronounced economic uncertainty and geopolitical unrest, such as that witnessed over the last couple of years.

Nevertheless, there are several other areas in which respondents feel FMIs can deliver meaningful value moving forward. When questioned where FMIs can offer the greatest value over the next three years, there was a fairly even split among respondents (see graphic 10 on page 14). Offering access to cloud-based infrastructure ranks highest, with a share of 26%. This is followed by several other mentions ranging from 23% to 24%, including data and analytics capabilities.

This aligns with findings unearthed by the recent research paper from Coalition Greenwich in partnership with SIX, which highlighted that nearly two-thirds (64%) of market participants expect the cloud to emerge as the dominant market data delivery method over the next three to five years. This may be due to the emergence of cloud technologies that allow institutions to access data services from all major cloud providers with no vendor lock-in. By harnessing these versatile and cost-effective cloud connectivity options, companies might more efficiently leverage and standardize multiple market data sets – a significant growth opportunity.

Overall, the results suggest respondents perceive FMIs to be much more multifaceted and nuanced institutions than simply venues through which businesses can raise capital. These results may also be a reflection of FMIs looking to adapt and expand their business offerings to effectively meet the needs of companies navigating an increasingly complex market environment.

Poised for Growth

After a turbulent few years, fraught with elevated geopolitical and macroeconomic uncertainty, it appears optimism is building across financial institutions. While modest, this change in attitude is clearly distinguishable when contrasted against the findings of last year's iteration of the report.

While glimpses of optimism were visible last year, particularly with regards to respondents' conviction around the opportunity posed by digital assets and ESG investment, the general tone erred on the side of caution. While these themes are again cited as potential engines for growth among respondents this year, they are joined by a host of emerging innovations in promising areas such as AI and data and analytics. These could unlock tremendous value for front office functions – but only if companies can leverage them effectively.

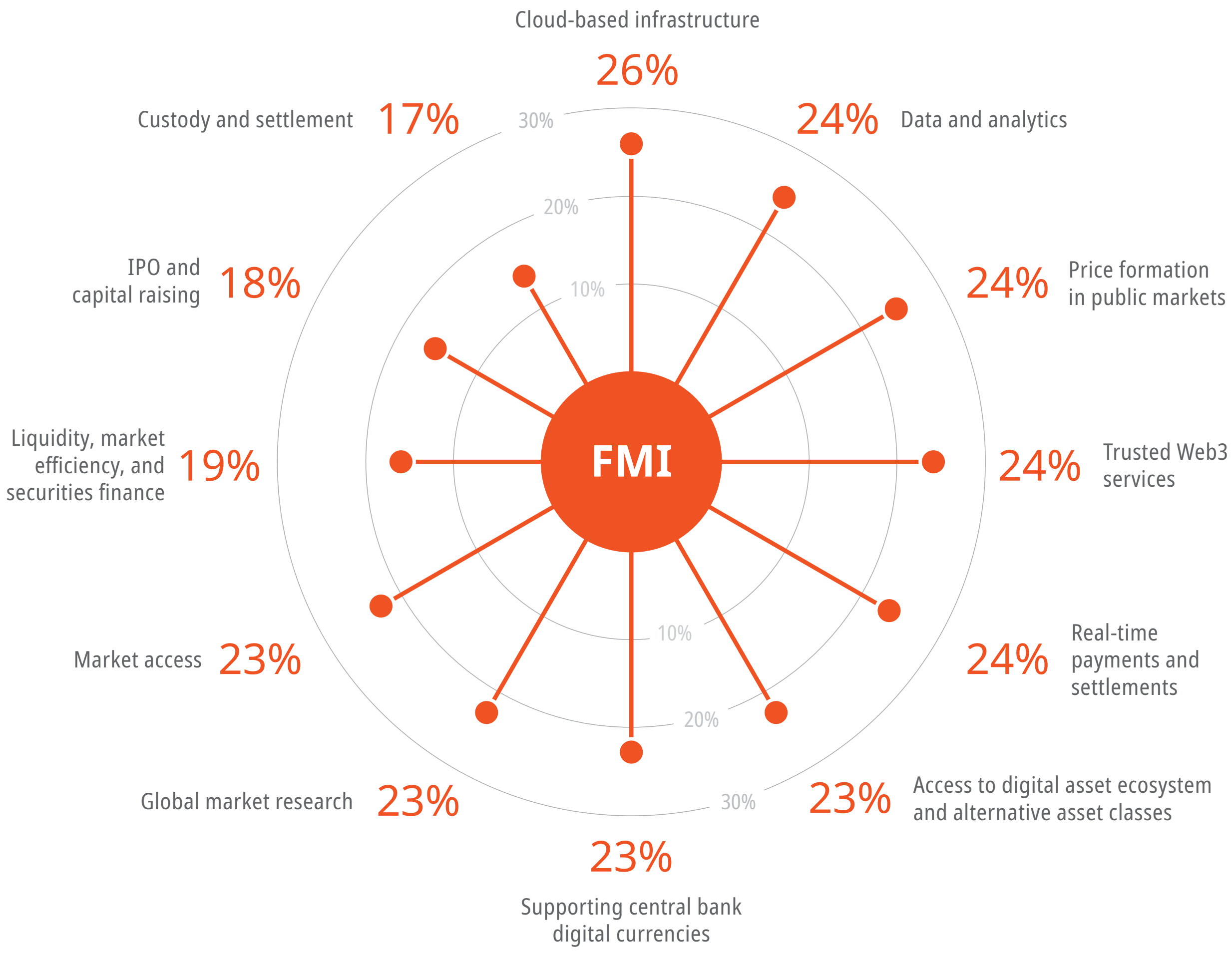
Companies' capacity to accomplish this rests on the effective collaboration of several crucial financial market institutions. Regulators will seek to stay abreast of the most substantial risks posed by emerging technologies and changing market factors by implementing effective frameworks and upholding rigorous reporting measures. Meanwhile, companies must ensure they possess the necessary internal infrastructure and strategic know-how to capitalize on breakthroughs safely.

Lastly, FMIs must remain agile and adapt rapidly to the shifting requirements of companies. Minimizing risks associated with fintech and innovations, as well as digital assets, will be critical. To this end, FMIs shall serve as dependable intermediaries, equipped with dynamic data privacy and risk management safeguards.

Only if each key market entity plays their part can companies realize their growth ambitions as we enter the next chapter of the future of finance.

10. IN WHAT AREAS DO FINANCIAL MARKET INFRASTRUCTURES BRING THE BIGGEST VALUE IN THE NEXT THREE YEARS?

Pick up to three answers



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