5 Movements Altering the World of Banking

By Joe Oliva

The world of banking, wealth management, and investment services is changing rapidly. With an influx of technological advances and a more consumer-driven but connected world, the industry is seeing prominent alterations to its greater ecosystem. The five “movements” captured provide an insight into the dynamic and ever-changing adaptability of consumer finance and investment advisory. These changes and influences are disrupting the day-to-day functionality of financial services workforces and are having a prominent impact on the power of adaptability and innovation within newer banking domains, such as FinTech.

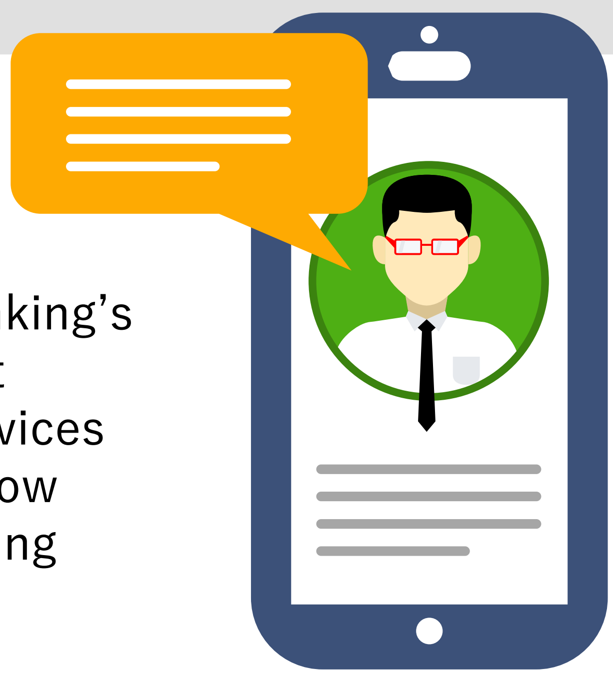
These “movements” should not be mistaken as having a negative impact on the banking world. If anything, digital advisory and passive investing promotes newer and more scalable areas of operational need that firms and organizations can pivot towards. Even early retirement movements, in essence, provide another anterior focus area for growth in the personal financial advisory services domain. It could evangelize a new segment of specialty with a focus towards new budgeting habits, encompassing the behavioral finance movement we identified. Overall, anticipation of the results of these movements should remain a solid focal point as consumer activity continues to alter in response to new financial technologies and money management lifestyles.

SHIFT TO BEHAVIORAL PERSONAL FINANCE

The rise in robo advisory services, such as Betterment and Wealthfront, and the continuing media domination of high-profile budgeting personalities, such as Dave Ramsey and Suze Orman, have steered the ship of personal finance away from complicated math and into a lifestyle. Tools such as Mint and Personal Capital provide users a broad array of colorfully visualized snapshots of their daily spending habits, helping to influence them towards financial lifestyle advice rather than suggestions on curtailing or minimizing spending. In addition, money management blogs have drastically risen in popularity stemming from the sponsorship of lifestyle books and articles highlighting accessible, everyday savings strategies.

GROWTH OF DIGITAL ADVISORY

While the popularity of traditional advisors has dropped, institutional advising services are still a considerable chunk of banking’s relationships with their customers. New video conferencing, AI bot chatting, and media blogs have fueled a movement in advisory services that focuses on comforting people from afar. Chat box features allow customers to contact and receive unsolicited, free advice on meeting financial benchmarks and setting up trajectory savings goals.

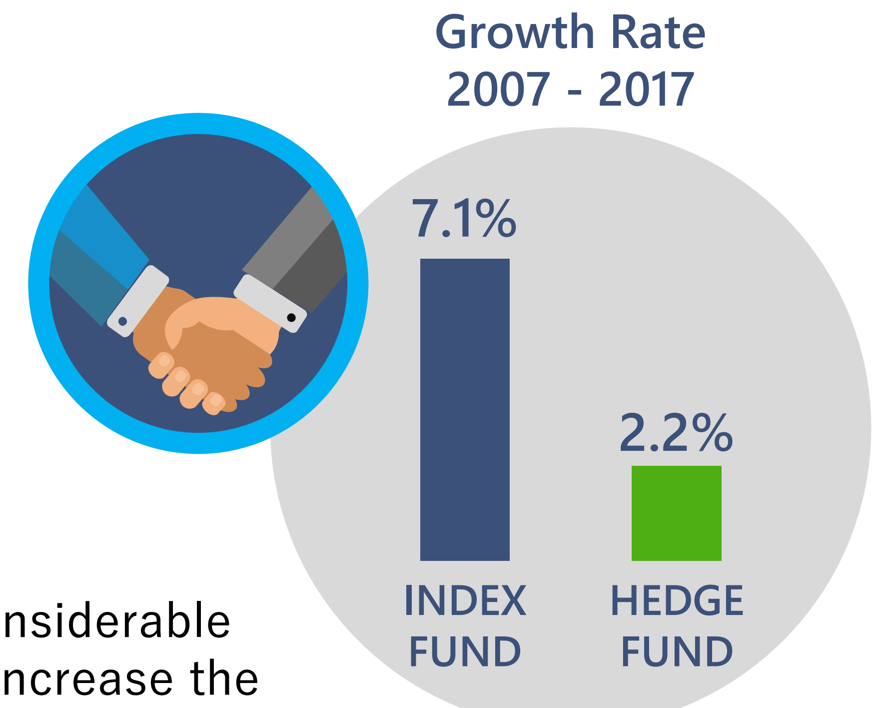


CREDIT CARD “CHURNING” AND REWARDS COMPETITION

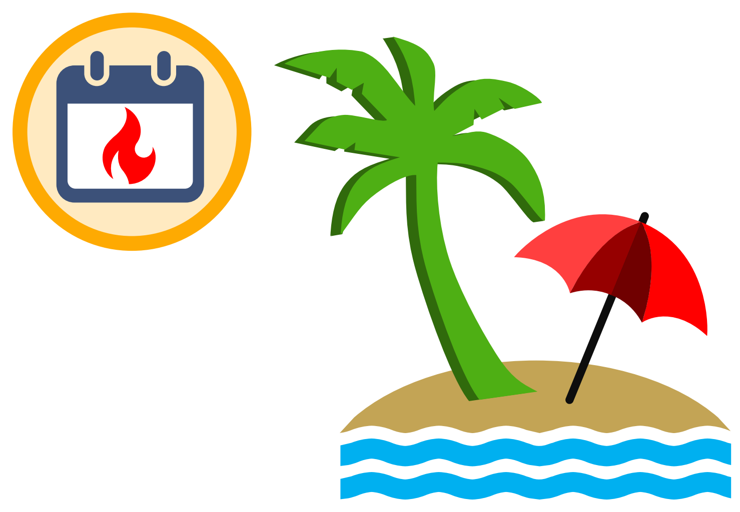
Although credit card reward systems have been around for over two decades, advanced algorithms and quantitative sales tactics have pushed banks to adjust and continually alter their rewards structures. From points to miles, statement credit to cashback, and travel portals tied in with airline alliances, credit cards are substantially flashier and enticing than year’s past, driving users to open cards for sign-up bonuses and then cancelling when the annual fee rolls around. The top banks often compete for the most prestigious card and, even in some cases such as the JP Morgan Sapphire Reserve, view the cards as an introduction to other banking services (mortgage application, checking account, etc.) than a reliable profit stream.

RISE OF PASSIVE INVESTING

In 2007, Warren Buffett bet a million dollars that an index fund would outperform a collection of hedge funds over the course of 10 years. He was proven right in 2017 as the S&P 500 Index’s growth of 7.1% outperformed that of hedge funds, which only grew at 2.2% in the prior decade. As index funds increase in popularity both for their low-cost maintenance fees and their steady benchmarking, many have turned away from actively managed accounts from which banks derive a considerable amount of fees. The proliferation of technology will only increase the power and attraction of passive, streamlined index investing.



EARLY RETIREMENT MOVEMENT



In a workforce culture that has a seemingly unlimited contractor and freelance army, individuals are continuously more interested in the Financial Independence, Retiring Early (FIRE) movement. While the pros and cons of leaving the workforce early remain hotly debated, the growing interest in conserving and building wealth at an earlier age is of considerable interest to the banking sphere. A significant slice of millennials, especially higher income earners, are listeners of podcasts and readers of books that espouse the free independence of following FIRE. Although they may not leave the workforce entirely, their devotion to FIRE restricts them from engaging in often lucrative banking offerings, such as high credit lines or bulky long-term mortgages.