MEGA TRENDS

Automation and artificial intelligence: A summary

Exchanges

Venues will seek to leverage their data, creating more value to their customers, including the safeguarding of investors. A recent example of this is the Hong Kong stock exchange which, following a number of small-cap companies simultaneously dropping in price, deployed artificial intelligence to detect unusual trading activity such as price manipulation and market abuse.

Created by the US Nasdaq technology and exchange group, the software analyses historic trading activity to identify patterns and anomalies, such as dramatic rises in trading volumes or wild swings in share prices. It then combines this with the exchange analysts' historical assessments of trading data to determine which areas to monitor. Similar systems utilising artificial intelligence, known as "reg-tech", are being implemented globally to combat market abuse.

Hedge funds & Business Development Companies

There is a need to invest in a host of new technologies such as quantitative analytics, alternative data sources and AI to enhance decision making and improve traditional investment processes.

Brokerage and Trading Firms

Significant attention is being given to the U.S. Securities and Exchange Commission's (SEC) latest efforts to increase the transparency of capital markets trading while ensuring competition and fair customer treatment. Like many other regulatory efforts, the Consolidated Audit Trail (CAT) involves shifting timelines and large changes in technology, operations, and processing flows.

Key requirements

- Broker-dealers conducting business in the US equity and options markets will be required to report daily on order lifecycles for equities and options markets, including orders, quotes, cancels, routes (including internal routes), and allocations.
- Firms will have to provide internal identifiers for these records to support CAT linkage processes. Unlike existing regulatory regimes, customer-identifying information must be included, which will require reporting firms to locate consistent "golden source" data for all customers.
- Firms should note that CAT will include substantial additional requirements such as options data, allocations, and customer data. These new data sets may require firms to rethink their target reporting architectures. Additionally, unlike OATS, the CAT will have no exemptions to these reporting requirements.

Once implemented in the US this will pose new data, system, security, and privacy requirements and will allow multiple regulators unprecedented access to detailed trading information. Whether the Australian regulators will follow is yet to be determined.

Investment Companies

Large investment companies are acquiring Fintech firms to fuel innovation and foster new skills & capabilities.

With more than 12,000 fintech organisations in operation globally, and the numbers likely to continue rise, according to the latest McKinsey report it is estimated that by 2025 they could capture up to 60% of the major banks profits in consumer finance, 34% in payments and small business lending, 30% in wealth management, and 20% in mortgages. Along with the commercialisation of new technologies this makes for an appealing prospect for investment, and one which can quickly move, potentially back, in to a situation where demand exceeds supply.

Banks and Lending Institutions

Consumer' behaviour continues to shift to digital and mobile channels. Preference among many of the millennial generation include services delivered through smartphones and tablets. Cash generated by targeted cost cutting, for instance through Robotic Process Automation can help support more strategic investment strategies.

Following the widely publicised Royal Commission, and while the Australia's banking sector awaits the official 2020 rollout of the Consumer Data Right (CDR), the Open Banking movement represents a first step in to what will inevitably be an 'open data' future. The changes to digital infrastructure required to support the customer data sharing regime will be significant and may force incumbent banks to open up API's to allow 3rd and 4th parties to develop linked payment applications.

Insurance Companies

By opening platforms to third parties through application and planning interfaces, firms can unlock value from data and develop new cloud-based services more quickly.

Customers are purchasing insurance in new ways. Some customers are choosing different channels such as online and mobile, while others are changing their purchase occasions, including purchasing micro-insurance products and purchasing insurance directly tied to a product.

RSM