# INTRODUCTION TO FINANCIAL SERVICES

Welcome to *Introduction to Financial Services™*! This course is part of PSI's *Inside Financial Services*® curriculum.

This course follows guidelines in WCAG 2.0 Level AA Success Criteria. The elearning version of this course is designed to be accessible to people with disabilities. It adheres to standards based on guidelines originally developed by the Web Accessibility Initiative (WAI), known as the Web Content Accessibility Guidelines (WCAG). WCAG is a global set of guidelines followed around the world.

You may be eligible for Continuing Professional Education credit for this course if you are a CPA licensed in the United States. This course offers 1 CPE credit by the National Association of State Board of Accountancy (NASBA). Refer to the associated CPE information pdf for more information on the continuing education credits for this course.

## Welcome

This course provides an introduction to the financial services industry.

Topics covered in this course include:

- Customers
- Industry participants
- Industry segments
- Executives
- Industry challenges

## Course Overview

This 50 minute course is designed for professionals serving the financial services industry and provides a fundamental understanding of the financial services industry.

Upon completing this course, you will be able to:

- Name financial services customers
- Identify participants within the financial services industry
- Recall the industry segments
- Recognize important executives within financial institutions
- Identify the challenges facing the financial services industry

This course is part of the *Inside Financial Services®* training curriculum. Other courses in this curriculum include:

- *Inside Retail Banking*
- *Inside Investment Management*
- *Inside Corporate Finance*
- *Inside Transaction Banking*
- *Inside Capital Markets*
- *Inside Risk Management*
- *Inside Financial Services Regulation*
- *Making Money in Financial Services*

# OVERVIEW

The financial services industry is an important and exciting industry, serving almost every person, business and organization throughout the world. It is also a very competitive industry, with thousands of providers and constantly changing products, technologies and regulations.

The financial services industry is a critical element of the world's economy. It:

- Provides a network for sending and receiving payments
- Moves capital between those who have it and those who need it
- Serves as a vehicle for governments to influence national and international economies
- Assumes and spreads financial risk, allowing customers to conduct business or plan for their financial future

However financial institutions are also businesses, and (like all businesses) their primary objective is to generate profits for shareholders by meeting the needs of customers.

# CUSTOMERS

Financial institutions serve a wide variety of customers, including:

- Individuals

- Businesses
- Public sector organizations
- Other financial institutions

Not all financial institutions serve all of these customers. For example, some financial institutions focus only on individual customers while others only provide services to large organizations or other financial institutions.

Most large financial institutions *do* serve all of these customers, although they have separate business units dedicated to specific customer segments.

# Individual Customers

Individuals are an important customer segment for the industry, and the largest financial institutions serve tens of millions of individual customers.

The terms used to describe individual customers vary by industry segment. For example:

- In retail banking:
    - Individuals are usually referred to as **customers** or **consumers**
    - Many banks further segment their retail banking customers into:
        - **Mass affluent customers** who have above-average income and/or wealth
        - **Mass market customers** who have average or below-average income and/or wealth (and are typically the majority of a bank's retail banking customers)
    - Retail banks also focus on attracting the **underbanked**
        - The underbanked are people who have little or no relationship with banks, usually due to poverty, illiteracy or inaccessibility to retail banking services
    - Retail banking is covered in more detail in the *Inside Retail Banking* course
- In investment management:
    - Individuals are generally referred to as **clients** or **individual investors**
    - Some investment management services are reserved for clients (or families) with minimum levels of investments (with minimums ranging from $100,000 to $10 million or more)
        - These individuals are often referred to as **high net worth individuals (HNWIs)**
    - Investment management is covered in more detail in the *Inside Investment Management* course

## What Individual Customers Need

While financial institutions offer thousands of different products and services to individual customers, all of these products and services exist to meet one or more of four basic financial needs:

- Transfer money
    - Individuals need safe, convenient and reliable methods for receiving payments (such as salary payments from employers) and making payments (such as sending payments to pay bills or purchasing goods from a merchant)
- Store and/or grow money
    - Individuals need the ability to safely store and invest money to meet future needs
    - These future needs can range:
        - From short-term needs (such as the need to pay bills tomorrow)...
        - ...to long-term goals (such as saving money for retirement)
- Borrow money
    - Individuals need to borrow money to purchase large items (such as houses or automobiles)
    - In exchange for the use of these funds, individuals are willing to pay interest to a lender
- Advice
    - Individuals need advice to help them understand the wide variety of options available for meeting the other three financial needs
    - For example, individuals often need advice on developing investment strategies

## Business Customers

Business customers are also an important customer segment for financial institutions. Businesses served by financial institutions range from small, local businesses to the largest global corporations.

Most financial institutions segment their business customers by size, which is typically determined by each customer's annual revenue or sales. Business customer segments include:

- Large corporations
    - Large corporations (commonly referred to as **large corporates**) are typically multi-national corporations with billions of dollars in annual revenue
    - Large corporations are served primarily by large, global commercial banks and investment banks that are able to provide both expertise and sophisticated products in markets around the world
- Small and medium enterprises (SMEs), which many institutions further segment into:
    - **Small businesses**, which are privately owned businesses, partnerships and sole proprietorships with relatively small amounts of revenue
        - Small businesses are served primarily by commercial banks, savings banks and cooperative banks
        - For small banks, small businesses are often their primary business customer group
    - **Middle market companies**, which are broadly defined as companies smaller than large corporates but larger than small businesses

- Middle market companies are served primarily by commercial banks, commercial finance companies, private equity firms and small investment banks

## What Business Customers Need

While financial institutions offer thousands of different products and services to business customers, all of these products and services exist to meet one or more of five basic financial needs:

- Transfer money
  - Businesses need safe, convenient and reliable methods for receiving payments (such as customer payments) and making payments (such as sending payments to suppliers or paying employees)
- Store and/or grow money
  - As businesses generate cash, they need to maximize the return on this asset by earning additional income through investment of any funds not immediately required for ongoing operations
- Borrow money
  - Businesses need to borrow money to meet their business objectives
  - These borrowing needs can range:
    - From a one-time need (such as funds needed to acquire another company)
    - ...to short-term needs (such as funds needed to purchase inventory)
    - ...to long-term needs (such as funds needed to build a new data center)
- Insure against financial loss
  - Businesses need to insure against financial losses that might occur from changes in the economy (such as rising interest rates) or markets (such as changes in foreign exchange rates)
- Advice
  - Businesses need advice to help them understand the wide variety of options available for meeting the other four financial needs
  - For example, businesses often need advice on matters such as the best way to raise new funds or the most effective way in which to manage cash flows

While these basic needs are the same as the needs of individuals, the needs of businesses are complicated by several factors, including:

- Industry specific needs
- Subsidiaries and affiliated entities
- Operations in several countries and/or currencies
- Multiple financial relationships
  - Most large businesses have relationships with more than one financial institution
  - Businesses often do this because different financial institutions offer expertise or better pricing for specific services

- Businesses also maintain relationships with multiple financial institutions to ensure competition between the providers

## Public Sector Customers

Public sector customers served by financial institutions include:

- Federal (national) governments and government agencies
- Regional (state) governments and government agencies
- Local governments and government agencies (referred to as municipalities in the US)
- Foreign governments
- Public pension funds

Many of the needs and evaluation criteria used by public sector customers are similar to those of business customers.

## Other Financial Institutions

Many financial institutions provide services to other financial institutions.

In some situations, these are services that other financial institutions cannot legally perform. For example, in most countries only banks can be members of payment systems. For non-bank financial institutions (such as investment management firms) to send and receive payments, they need to use banks.

In other situations, these are services that other financial institutions choose not to offer to their customers. For example, many small banks have business customers with trade finance needs related to international trade. These small banks often hire large banks to provide these services in the background.

Institutional investors are an important segment within other financial institutions. **Institutional investors** are financial institutions, companies or other organizations with large investment portfolios to manage. Institutional investors include pension funds, mutual funds, hedge funds, life insurance companies and sovereign wealth funds.

## CYU #1 – Individual customers

***Match each description to the type of customer by choosing the appropriate customer from the drop down menu. Then click Submit to see if you are correct.***

| | |
|---|---|
| Mass affluent | Customers with above-average income and/or wealth |
| Mass market | Customers with average or below-average income and/or wealth |
| Underbanked | People with little to no relationship with banks |

**Correct Feedback:**

**Nice work! Mass market customers** have average or below-average income and/or wealth (and are typically most of a bank's retail banking customers). **Mass affluent customers** have above-average income and/or wealth. The **underbanked** are people who have little or no relationship with banks, usually due to poverty, illiteracy, or inaccessibility to retail banking services.

**Incorrect feedback:**

**That is incorrect. Mass market customers** have average or below-average income and/or wealth (and are typically most of a bank's retail banking customers). **Mass affluent customers** have above-average income and/or wealth. The **underbanked** are people who have little or no relationship with banks, usually due to poverty, illiteracy, or inaccessibility to retail banking services.

# INDUSTRY PARTICIPANTS

In this curriculum, the term "financial institution" is generally used to describe any company or organization that provides financial services to industry customers.

However financial institutions are a diverse group. They range from:

- Small firms meeting the needs of their local communities to…
- …Highly specialized companies meeting the needs of specific market niches to…
- …Large global institutions meeting the needs of customers around the world

Most financial institutions can be categorized into one of three broad categories:

- Banks
- Capital markets firms

- Other financial institutions

In addition to financial institutions themselves, fintech firms and other industry participants also play an important role in the financial services industry.

It is important to keep in mind that many financial institutions serve more than one role. For example, JPMorgan Chase is a commercial bank that also serves as an investment bank, a brokerage firm and an investment management firm (depending upon the situation).

## Banks

Banks are financial institutions licensed to accept customer deposits. Banks use these deposits to lend money to other customers and invest in securities.

Banks are the most highly regulated of all financial institutions, because protecting customer deposits is one of the primary objectives of industry regulators. Regulators often refer to financial institutions licensed to accept customer deposits as **depository institutions**.

The different types of banks (or depository institutions) include:

- Commercial banks
    - Commercial banks provide a full range of traditional banking services
    - Many commercial banks also offer other financial services, including investment management and investment banking
    - Commercial banks range from small local banks to large global banks
    - Commercial banks are typically categorized by their size and business focus, although the categories used vary by country
- Savings banks
    - Savings banks were originally established to provide small savings accounts and mortgage loans for individuals (areas historically ignored by larger commercial banks)
    - In most countries deregulation has allowed savings banks to expand their product offerings, and many now offer small business loans and/or other retail banking services
    - Since savings banks are local, the terms used to describe them vary between countries
    - Some savings banks are for-profit companies, while others are cooperative banks
- Cooperative banks
    - Cooperative banks are owned by customers (usually referred to as members) who share a common bond (such as members of a specific profession)
    - Cooperative banks were developed to provide members with deposit and low-cost lending services
    - In many countries deregulation has allowed cooperative banks to expand into other areas of retail banking

    - In some countries cooperative banks are referred to as mutual banks, mutual savings banks or credit unions
- Postal savings banks
    - A postal savings bank (also known as a postal bank or giro bank) is tied to a country's postal system
    - While most postal savings banks offer a small set of simple retail banking services, their sheer size make them significant providers in some countries
    - Postal savings banks have been historically state-owned, but many have been privatized over the years

Financial services industry participants that are not banks (or depository institutions) are sometimes referred to as **non-banks**.

## Capital Markets Firms

Capital markets firms exist primarily to:

- Help clients raise funds by issuing new securities
- Support clients in the buying and selling of existing securities

Capital markets firms include:

- Investment banks
    - The primary role of an investment bank is to help clients raise funds by issuing new securities
    - Over time investment banks have expanded into other financial services, including capital markets and investment management
    - Today, many of the largest investment banking operations are subsidiaries of large commercial banks
- Brokerage firms
    - Brokerage firms complete trade orders submitted by clients (referred to as **trade execution**)
    - Brokerage firms include:
        - Retail brokerage firms that focus primarily on individual investors
        - Institutional brokerage firms that focus primarily on institutional investors
        - Full-service brokerage firms that provide clients with additional services beyond trade execution
        - Discount brokerage firms that focus primarily on low-cost trade execution
    - Today, many brokerage firms are subsidiaries of commercial banks
- Investment management firms

- Investment management firms provide asset management and other investment management services for their clients
- Investment management firms are also referred to as **asset managers**, **money managers** and **investment houses**
- Investment management firms include:
  - Mutual fund companies
  - Hedge fund firms
  - Private equity firms
- While many investment management organizations are subsidiaries of commercial and investment banks, many large independent investment management firms remain

## Other Financial Institutions

Beyond banks and capital markets firms, other financial institutions include:

- Finance companies
  - Finance companies issue loans to customers, but they cannot accept deposits so they are not depository institutions
  - Finance companies raise funds by issuing debt, selling loans and borrowing from other financial institutions
  - Many finance companies are subsidiaries of other financial institutions
  - Some finance companies are owned by manufacturers (such as Toyota Financial Services) and are used to provide low-cost financing to customers to support sales of the manufacturers' products
- Insurance companies
  - Insurance companies provide customers with protection from financial loss caused by death, property damage or other events
  - Insurance companies are covered in more detail in PSI's *Inside Insurance®* training curriculum

## Fintech Firms

Fintech firms are technology companies that offer financial services directly to customers.

Fintech firms offer innovative financial services, often focusing on profitable niches within the financial services industry. Fintech firms are more technically savvy than most financial institutions, building their businesses around digital technologies, sophisticated analytics, innovative customer experiences and streamlined business processes.

Fintech firms include:

- Small, privately-held firms that focus on customer needs in specific segments of the industry
- Larger, established, publicly-held technology companies (such as PayPal)
- Large consumer technology "giants" that are leveraging their strong positions with consumers to expand into financial services, including Alibaba's Ant Financial, Google, Apple and Amazon

In many cases, fintech firms compete directly with traditional financial institutions for customer relationships. However, traditional financial institutions are increasingly collaborating with fintech firms to:

- Gain access to new technology and digital expertise
- Offer innovative products and services
- Enter new markets
- Improve the customer experience

## Other Industry Participants

In addition to financial institutions themselves, there are many other organizations participating in the financial services industry. Some of these organizations support financial institutions, others compete directly with financial institutions and many do both.

Other industry participants include:

- Payment processors (such as Visa and MasterCard) that provide various payment services
- Execution venues (such as exchanges) that match and complete trade orders submitted by buyers and sellers
- Clearinghouses that review post-trade information by buyers, sellers and execution venues before trades are settled
- Depositories that track the ownership of securities
- Information providers, including:
    - Market data providers (such as Bloomberg and Thomson Reuters)
    - Credit bureaus, which provide financial institutions with credit information on individuals and businesses

## CYU #2 – Industry Participants

***Match each description to the industry participant by choosing the appropriate participant from the drop down menu. Then click Submit to see if you are correct.***

| | |
|---|---|
| Commercial banks | Accept customer deposits and issue loans |
| Fintech firms | Technology companies that offer financial services directly to customers and offer innovative products and services |
| Brokerage firms | Complete trade orders submitted by clients |
| Finance companies | Issue loans, but cannot accept deposits |

**Correct Feedback:**

Nice work! **Commercial banks** provide a full range of traditional banking services, including accepting customer deposits and issuing loans. **Fintech firms** are technology companies that offer financial services directly to customers and offer innovative products and services. **Brokerage firms** complete trade orders submitted by clients and are often subsidiaries of large commercial banks. **Finance companies** issue loans to customers, but they cannot accept deposits, so they are not depository institutions.

**Incorrect feedback:**

That is not correct. **Commercial banks** provide a full range of traditional banking services, including accepting customer deposits and issuing loans. **Fintech firms** are technology companies that offer financial services directly to customers and offer innovative products and services. **Brokerage firms** complete trade orders submitted by clients and are often subsidiaries of large commercial banks. **Finance companies** issue loans to customers, but they cannot accept deposits, so they are not depository institutions.

# INDUSTRY SEGMENTS

Industry executives, regulators and analysts organize the financial services industry into various industry segments. The primary industry segments are:

- Retail banking
  - Retail banking includes deposit services, payment services and loans provided to individuals and families
  - Retail banking is also referred to as **consumer banking**

- Retail banking is covered in more detail in the *Inside Retail Banking* course of this curriculum

- Investment management
  - Investment management covers a broad range of financial services that help clients manage their investments and other assets
  - Investment management is also referred to as **wealth management** and **asset management**
  - Investment management is covered in more detail in the *Inside Investment Management* course
- Corporate finance
  - Corporate finance provides businesses and other organizations with financing
  - Corporate finance includes commercial lending and investment banking, and it is covered in more detail in the *Inside Corporate Finance* course
- Transaction banking
  - Transaction banking includes a range of transaction-oriented services that financial institutions provide to businesses and other organizations
  - Transaction banking includes treasury services, trade finance and securities services, and it is covered in more detail in the *Inside Transaction Banking* course
- Capital markets
  - The primary purpose of a financial institution's capital markets business is to help large customers buy and sell securities
  - The capital markets segment is covered in more detail in the *Inside Capital Markets* course

## CYU #3 – Industry Segments

***Match each description to the industry segment by choosing the appropriate segment from the drop down menu. Then click Submit to see if you are correct.***

| | |
|---|---|
| Investment management | Helps clients manage their investments and other assets |
| Corporate finance | Includes commercial lending and investment banking |
| Transaction banking | Includes treasury services, trade finance and securities services provided to organizations |
| Capital markets | Help large customers buy and sell securities |

**Correct Feedback:**

Nice work! **Investment management** helps clients manage their investments and other assets. It is also referred to as wealth management and asset management. **Corporate finance** provides businesses and other organizations with financing and includes commercial lending and investment banking. **Transaction banking** includes transaction-oriented services like treasury services, trade finance and securities services. A financial institution's **capital markets** group helps large customers buy and sell securities.

**Incorrect feedback:**

That is incorrect. **Retail banking** includes deposit services, payment services and loans provided to individuals and families. **Investment management** helps clients manage their investments and other assets. It is also referred to as wealth management and asset management. **Corporate finance** provides businesses and other organizations with financing and includes commercial lending and investment banking. **Transaction banking** includes transaction-oriented services like treasury services, trade finance and securities services. A financial institution's **capital markets** group helps large customers buy and sell securities.

# EXECUTIVES

In this section we will look at some of the important executives within a financial institution.

Most large financial institutions organize their operations into business units focused on the industry segments covered in the previous section. The executives within these business units are important executives, but they are covered in the specific courses covering each industry segment.

In this course, we will look at the important executives providing support functions to the business units. These executives include:

- Chief Financial Officer
- Chief Risk Officer
- EVP, Global Technology and Operations
- Chief Information Officer
- Chief Compliance Officer

## Chief Financial Officer

The Chief Financial Officer (CFO) is one of the most powerful executives within a financial institution. The CFO and Finance group are responsible for the financial management of the financial institution, which includes:

- Accounting
- Shareholder and regulatory reporting
- Budgeting and planning
- Procurement
- Tax planning and reporting
- Performance analysis and reporting
- Financial analysis of investment opportunities

In addition, the CFO and Finance are often leaders behind internal efforts to lower costs and improve efficiency within financial institutions.

The Chief Financial Officer reports to either the Chief Executive Officer (CEO) or directly to the Board of Directors. This executive's direct reports often include:

- The Corporate Treasurer
- The Controller
- SVP/Director, Tax
- SVP/Director, Financial Planning and Analysis (FP&A)
- VP/Director, Investor Relations

## Chief Risk Officer

The Chief Risk Officer (CRO) is responsible for market risk management. In some institutions, the CRO also has responsibility for credit risk management, operational risk management and/or other areas of risk management. Risk management is covered in more detail in the *Inside Risk Management* course of this curriculum.

This executive's direct reports may include:

- SVP, Operational Risk Management
- SVP, Risk Operations
- SVP, Risk Analysis
- VP, Model Risk Control
- VP, Risk Reporting

- VP, Risk Data Management

## EVP, Global Technology and Operations

The EVP of Global Technology and Operations is responsible for overseeing the day-to-day operations of a financial institution and is sometimes referred to as the Chief Operating Officer (COO). This executive's responsibilities vary by financial institution, but they generally include:

- Operations
- Information technology (IT)
- Human resources
- Marketing
- Procurement

This executive usually reports to the CEO. This executive's direct reports typically include:

- SVPs of business unit operations
- Chief Information Officer
- Chief Marketing Officer
- SVP, Human Resources

## Chief Information Officer

The Chief Information Officer (CIO) is responsible for managing a financial institution's Information Technology (IT) group, including IT operations, staffing and budget.

The CIO is responsible for controlling IT costs while managing:

- IT personnel and day-to-day IT operations
- Enterprise IT infrastructure, including data center services
- Software applications
- End-user support services, such as IT help desks
- Cybersecurity, IT risk and IT compliance
- Business continuity and disaster recovery

...and developing, purchasing and/or implementing new IT projects to support the lines of business and other support functions.

Today CIOs and IT groups are becoming increasingly responsible for advising business executives of technological developments that offer new business opportunities, such as:

- Improving risk management through advanced analytics
- Increasing efficiency through robotic process automation
- Enhancing sales and marketing through data management
- Improving customer experience through digital channels

Increasingly, technology *is* the product or service a financial institution offers.

The CIO usually reports to the CEO or EVP of Global Technology and Operations. The organization within each institution's IT group varies, but typically executives reporting to the CIO include:

- Chief Technology Officer
- Chief Data Officer
- Chief Security Officer

## Chief Compliance Officer

The Chief Compliance Officer (CCO) leads the financial institution's Compliance Department. The Chief Compliance Officer and Compliance Department are responsible for overseeing an institution's compliance with industry and other regulations.

The CCO is responsible for:

- Establishing specific procedures and policies to ensure regulatory compliance
- Training personnel on regulatory issues and internal procedures
- Monitoring the institution's on-going compliance
- Ensuring IT systems support regulatory compliance

Given the complexity of regulations governing the industry today, the Compliance Department plays an important role in protecting a financial institution from legal and compliance risk. Important regulations are covered in detail in the *Inside Financial Services Regulation* course within this curriculum.

While Compliance is a staff function independent of the lines of business, compliance officers and compliance staff are typically assigned to specific business units. In smaller financial institutions, compliance officers may be business executives with additional compliance responsibilities assigned to them.

## CYU #4 – Executives

***Which executive is increasingly responsible for advising business executives of technological developments that offer new business opportunities? Select the best answer.***

**Chief Information Officer**

> **You are correct!** Today **Chief Information Officers** and IT groups are becoming increasingly responsible for advising business executives of technological developments that offer new business opportunities. For example, improving risk management through advanced analytics.

EVP, Global Technology and Operations

> **Your answer is incorrect.** The **EVP of Global Technology and Operations** is responsible for overseeing the day-to-day operations of a financial institution.

Chief Compliance Officer

> **Your answer is incorrect.** The **Chief Compliance Officer** and Compliance Department are responsible for overseeing an institution's compliance with industry and other regulations.

Chief Financial Officer

> **Your answer is incorrect.** The **Chief Financial Officer** and Finance group are responsible for the financial management of the financial institution.

# INDUSTRY CHALLENGES

The primary challenges facing the financial services industry today include:

- Economic and market conditions
- Regulatory burden
- Digital disruption
- Risk management

There are additional challenges facing unique industry segments. These challenges are covered in the other courses within this curriculum.

## Economic and Market Conditions

Economic and market conditions have a direct impact on financial institutions. For example:

- In times of economic expansion businesses and consumers borrow more money, increasing demand for corporate finance, mortgage lending and consumer finance services
- When unemployment rates fall, loan losses related to mortgage loans and consumer finance also fall
- Rising interest rates increase borrowing costs for customers, lowering demand for business and consumer loans
- Volatile markets lead to increased capital markets activity as investors and traders look to take advantage of market changes

Following the Covid-19 pandemic, rapid economic growth, low unemployment and geopolitical issues created significant inflationary pressure in economies around the world. In response, central banks aggressively raised interest rates to cool economic demand and slow inflation.

These rising rates (and other economic changes) have created new challenges and opportunities for financial institutions:

- Some financial institutions were able to improve short-term profitability by raising interest rates on loans faster than they raised rates on deposits as interest rates rose
- Rising interest rates have increased liquidity risk and interest rate risk for financial institutions, leading to several bank collapses
- Higher interest rates are slowing economic growth, which typically:
    - Slows demand for financial services
    - Increases loan losses as consumers and businesses struggle to repay loans

## Regulatory Burden

Since the global financial crisis, regulation of the financial services industry has increased significantly. The primary goals behind these regulatory changes are to:

- Promote financial stability
- Increase investor and consumer protection
- Prevent market abuses

The most important regulations facing the industry today include:

- Capital and supervisory rules
- Anti-money laundering
- Securities trading regulations
- Consumer data protection

The impact of today's regulatory environment include:

- Limits and restrictions on revenue financial institutions can earn from certain activities
- Higher costs associated with regulatory compliance

## Digital Disruption

Changing clients, advances in technology, new competitors and new business models are transforming the financial services industry. The convergence of these transformative drivers is often referred to as **digital disruption**.

The most important, disruptive advances in technology impacting the financial services industry include:

- Analytics, artificial intelligence and big data
- Mobile technology
- Cloud computing
- Blockchain
- Robotic process automation
- Chatbots and virtual assistants
- Biometrics

Digital disruption is fueling the growth of financial technology or **fintech**. While the term fintech is used in many different ways, the most common use defines fintech as newer, technology-driven services and solutions within the financial services industry. Examples of fintech include:

- Digital wallets
- Mobile, P2P and real-time retail payments
- Alternative trading systems
- Online lending platforms
- Robo-advisory services
- Cryptocurrencies

This digital disruption is creating challenges for financial institutions as they struggle to meet client expectations and respond to new competitors. However, digital disruption also creates significant opportunities for financial institutions to transform their own businesses by leveraging these advances in technology. For example, financial institutions are:

- Investing in analytics and machine learning to improve risk, fraud, marketing and customer analytics
- Utilizing robotic process automation to automate business processes and reduce costs
- Leveraging big data management tools, high-performance computing resources and artificial intelligence to support trading and investment decisions
- Offering robo-advisory services to retain and attract clients

- Exploring blockchain applications to support interindustry functions, such as trade finance and securities trade settlement

## Risk Management

Accepting risk is a fundamental part of a financial institution's business. Financial institutions cannot avoid risk entirely, and the most successful institutions are those that identify the appropriate levels of risk to assume and put the appropriate measures in place to manage that risk.

In recent years, financial institutions and regulators have increased their focus on risk management. To improve risk management, financial institutions are:

- Improving risk governance
- Investing in data management, predictive analytics and machine learning to enhance risk and fraud analytics
- Expanding stress test modeling to better understand the impact of adverse economic and market conditions
- Implementing enterprise risk management

Risk management is covered in more detail in the *Inside Risk Management* course of this curriculum.

## CYU #5 – Fintech

***Which factor is driving the growth of fintech? Select the correct answer.***

**Digital disruption**

**You are correct! Digital disruption** is driving the growth of financial technology or fintech. Digital disruption is being fueled by changing clients, advances in technology, new competitors and new business models within the industry.

Increased regulation

**Your answer is incorrect. Increased regulation** is not driving the growth of fintech. Regulations increased significantly because of the global financial crisis.

Risk management

**Your answer is incorrect. Risk management** is not driving the growth of fintech. Risk management is a fundamental part of a financial institution's business and cannot be avoided.

Economic conditions

**Your answer is incorrect. Economic conditions** are not driving the growth of fintech. Economic conditions have impacted financial institutions, but they are not driving the growth of fintech.

# FINAL TEST

To successfully complete this course, you must score at least 70% on the test. There are 10 questions in total. When you have answered all the questions in the test, submit it to info@goto-psi.com and it will be graded.

Good luck!

## Question #1

**Which financial institution helps clients raise funds by issuing securities? Select the correct answer.**

Brokerage firm

Life insurance company

Investment management firm

Investment bank

## Question #2

**What do financial institutions commonly call clients that are multi-national corporations? Select the best answer.**

Blue chips

Commercial customers

Large corporates

Whales

## Question #3

**Which financial institution can issue loans but cannot accept deposits? Select the correct answer.**

Savings bank

Insurance company

Finance company

Commercial bank

## Question #4

**Which executive is responsible for market risk management? Select the correct answer.**

Chief Information Officer

Chief Risk Officer

Chief Compliance Officer

Chief Marketing Officer

## Question #5

**Which are the primary goals behind regulatory changes since the global financial crisis? Select all that apply.**

To promote economic growth

To increase investor and consumer protection

To prevent market abuses

To limit regulatory compliance costs

## Question #6

**Which industry segment provides treasury services, trade finance and securities services to customers? Select the correct answer.**

Transaction Banking

Corporate finance

Investment banking

Capital markets

## Question #7

**Which executive is responsible for budgeting and planning in a financial institution? Select the correct answer.**

Chief Information Officer

Chief Financial Officer

EVP, Global Technology and Operations

Chief Compliance Officer

## Question #8

**Which are important disruptive advances in technology directly impacting the financial services industry today? Select all that apply.**

Analytics, artificial intelligence and big data

Robotic process automation

Drones

Virtual reality

## Question #9

**Which service is provided by the corporate finance segment of the financial services industry? Select the correct answer.**

Investment banking

Asset management

Trade finance

Treasury management services

## Question #10

**Which are considered retail banking customers? Select the best answer.**

Mass market customers

Business customers

High net worth individuals

Individual investors