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Is Digital Transformation in Financial Services Dead?

Contents

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Why Digital Transformation is More Relevant Now Than Ever Before

Four Facets of Digital Transformation in Financial Services

Many are ready to abandon the term "digital transformation" because they feel that overuse has put it in danger of becoming so genericized that it is meaningless. For example, in a recent article from Fedscoop, Forrester Research is quoted as saying that "the reality is that digital transformation has become so widely misused it's now synonymous with any technology-driven business improvement."[1] However, any move to write off digital transformation as irrelevant is premature. The term is actually more relevant now than ever before because it brings together two concepts that are central to what is driving change in business today: the marriage of **digital technologies** with best practices for **transformation**. Taken together like this, the sum of the two words is greater than the parts.

The financial services industry is ripe for digital transformation and momentum in this direction has been increasing for some time. Pressures on profitability arising from the cost and inflexibility of old, paper-based models

The financial services industry is ripe for digital transformation and momentum.

1. Buhrman, Rob. "Digital transformation is not just about technology." FEDSCOOP, August 4, 2020, https://www.fedscoop.com/digital-transformation-not-just-technology/.

that often rely on branches and a physical footprint are being coupled with increased security requirements. As such, the need is evident for evolved business processes and demand for new customer-facing services in order to continue to grow. These conditions were brought into stark relief with the arrival of the COVID-19 pandemic, which accelerated these trends by at least five years as branch utilization declined by 30% and call center traffic grew by 30%, often leading to a 6x increase in wait times[2]. As a result, now, more than ever, financial services institutions need to embrace digital transformation in order to meet the evolving needs of their clients as well as fend off challenges by fintech disruptors that are arising from all directions.

That being said, digital transformation may be facing a similar fate as other "shiny objects" that caught the attention of the business world over the past 20 years, such as big data, virtualization, mobile revolution and now cloud. The fact is that by failing to connect the new technologies directly to business outcomes, financial services face a difficult challenge. They have invested billions of dollars over the past decades in new solutions, but their business models are fundamentally unchanged. In the 90s, it took weeks to secure a small business loan, and it still takes weeks today, just as it took months to close a mortgage and it still takes months today. That's little change over the course of 20+ years. We have witnessed incremental, timid improvements in efficiency and very little change in fundamental business behavior and outcomes. Clearly, more is needed.

In this white paper, we reclaim the phrase "digital transformation" by focusing on the traditional business outcomes that are driving current activity. By defining the important facets of growing revenue, reducing cost, managing risk and driving efficiency, and providing real-world examples of how leaders in financial services are embracing change to create powerful new opportunities, we make the case that digital transformation is more than a tired buzzword. Instead, it is the way in which companies are both surviving and thriving in the most difficult of market conditions. We take a look at the opportunities available in each area, acknowledge and define the many challenges that arise in a digital transformation effort, and look at the results financial services companies are experiencing.
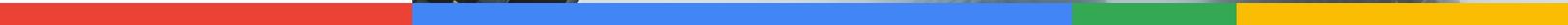
2. Schneider, Ellen. Jacksonville Business Journal (bizjournals.com). "How Covid-19 altered the future of bank branches on the First Coast." Aug 7, 2020. https://www.bizjournals.com/jacksonville/news/2020/08/07/how-covid-altered-future-of-bank-branches.html

30% ↓

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Four Areas
Where Digital
Transformation is
Making an Impact
in Financial Services

Four Facets of Digital Transformation in Financial Services

1 Reducing costs

2 Growing revenue

3 Managing risk and security

4 Enabling efficiency

Both the pace and breadth of change have accelerated across nearly all industries, and this is especially true for financial services. While technology is a key enabler of change, it is the desired outcomes of reducing costs, growing revenue, managing risk and security, and enabling efficiency that are the measures by which effective change is evaluated. By using each of these as a lens, we can illuminate the ways in which results are being realized.

Area 1
Reduce Costs

In a challenging revenue environment such as the one created by the pandemic, an important first step is to adopt a heightened focus on the cost side of the equation. But pandemic aside, over years, the tune has always been similar. Make a big investment today, and eventually things will be better. Today, we are entering a different world. In many respects, digital transformation efforts really shine when it comes to the bottom line because new technologies offer many opportunities to reduce cost quickly. Examples include solutions that lessen or eliminate fixed costs such as data centers, including rationalization and modernization of resources, and the enhancement of functionality such as that found in the call center.

Importantly, impacts can be realized in both short-term variable costs as well as long-term fixed costs. Gains can be won by lowering the variable cost of compute resources and, at the same time, fixed costs such as data centers and ancillary support and personnel can be reduced or repositioned to optimize operations. In the end, it is almost always the case that new approaches lead to simultaneous cost reductions and enhanced or increased customer service and functionality.

Challenges

Any change brings about unique challenges, and efforts to reduce cost are no exception to this rule. Lagging gains, business risk and lack of a clear vision can all have negative impacts on efforts to reduce cost during digital transformation.

1

Slow or low ROI

Funding a technology change costs money upfront, and out-of-pocket costs may not be followed by immediate returns. In some cases, it can take years to achieve a positive ROI.

In what might seem to be a counterintuitive approach, an aggressive and comprehensive program often offers opportunities for enhanced or immediate ROI. One clear example of this is data center transformation. Not only are more gains possible due to the sheer scope of an expansive effort, but the increased flexibility afforded by "going big" can be coupled with enhanced commitments from outside technology partners.

2

Business risk

Hand-in-hand with an expansive program as described above, business risk is a factor to consider. Change always entails some element of risk and the bigger the prospective gain, the bigger the potential risk.

With proper planning, risks align with expected gains and a roadmap is developed that accounts for different levels of risk assessment. Short-term gains can be experienced by addressing the "low hanging fruit" first. Intermediate gains can be planned for by tackling more complex problems, and the wise step of sometimes doing nothing when the expected gains are outweighed by the potential risks can also be addressed.

New approaches lead to simultaneous cost reductions and enhanced or increased customer service and functionality.

3

Lack of vision and leadership

Being too stuck in a traditional mindset leads to an inability to envision and, therefore, capture opportunities at hand. If an organization is undergoing "digital transformation" simply to check a box, they might experience this pitfall. To succeed, efforts must be led from the "top of the house."

Too often, digital transformation efforts that are led by IT amount to nothing more than "lift and shift" instead of transformation. And a lack of buy-in from lines of business limits change to just the bare minimums. Only with executive leadership can the full scope of possibility be realized.

The initial assessment and planning steps to any effort are critical to ultimately capturing gains. Not only must they be thorough, it is also important that they are candid and honest. In addition to calling out the possible gains, it is also important to be frank in describing the levels of commitment and investment needed to attain desired outcomes. Failure to do so can lead to negative outcomes as transformation efforts are hobbled at the most vulnerable stages of the process. Focus first on the overall goal of the transformation project and then establish the clear steps needed to make that vision a reality.

Only with executive leadership can the full scope of possibility be realized.

Results

Areas where financial services companies have experienced successful outcomes in tackling costs include data center transformation and customer experience enhancements through efforts to improve and reinforce customer-facing solutions such as those found in contact centers.

PayPal undertook a successful data center transformation project that reaped big gains. Over the past several years, PayPal has moved mission-critical workloads from the data center to Google Cloud. As a result, the new PayPal has been able to unify disparate providers, locations, and capabilities in order to achieve greater operating efficiency. With a goal of democratizing financial services, PayPal has leveraged the efficiency gains available with Google Cloud in order to deliver and expand on enhanced services and customer experience[3].

Gains in a contact center modernization effort are multifold. In addition to unlocking opportunities to achieve lower costs through the more efficient application of resources, an improvement in service not only helps in attracting new customers, it also has the added benefit of maintaining the satisfaction levels needed for retention as well. Importantly, retention applies to both customers and employees. Just as it is generally easier to generate positive results by keeping customers satisfied, it is also much easier to provide efficient and effective service by keeping associates happy as well. Finally, establishing a solid base with customers and associates is a springboard to introducing and building new, value-added services that are required to drive growth and profitability.

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3. Additional information is available on the Google Cloud site.

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Reduce Costs:
Use case: Supercharge the Contact Center with CCAI

Google Contact Center AI (CCAI) delivers an enhanced customer experience and enriched data analytics among other bene its but, at its root, CCAI makes it possible to optimize contact center costs through automation of simple interactions. In fact, according to Juniper Research, banking call centers that use chat save over 4 minutes per inquiry, or $0.50 - $0.70 per interaction.

CCAI can improve metrics like call de lection rates and call handling times and also reduces human capital costs by shortening training times on the front end, allowing precious human talent to be deployed where they can provide the greatest value add to customers and putting the information that they need when they need it through tools like Agent Assist. Learn more about CCAI in inancial services here.

Area 2
Grow Revenue

Make no mistake, business conditions in financial services markets are tough. The pressure to build change programs arising from the ascendance of new fintech challengers has been exacerbated by the arrival of the COVID-19 pandemic, leading to uncertainty with regard to both current and future operating conditions. In this environment, revenue growth is likely to be hard-won and will rely on efforts that focus on customer needs as well as new technologies such as Artificial Intelligence (AI, machine learning (ML and data analytics.

All hope is not lost, however, as the transformative capabilities of new technology, including public cloud, are as potent as ever. Experience has shown that the biggest and boldest gains and innovations often rise in a phoenix-like fashion from the ashes of economic hardships. In many cases, it makes the most sense to make large investments during times of stress and then reap the benefits as conditions improve.

Adding new technologies and capabilities via digital transformation make it possible to increase the pace and quality of analytics functions which, in turn, leads to greater insight that can be translated into new or enhanced products and services. While this implies that growth comes from new features, displaying increased responsiveness to customer wishes and demands also has an impact. It's axiomatic that it's easier to grow an existing customer relationship than it is to establish new ones, and the measured application of new technologies can greatly hasten this effect.

Challenges

1

Matching inputs to expected gains

Just as upfront investment can be a stumbling block to success in cost reduction, so too can outlays in search of gains when it comes to enhancing revenues. The simple mantra for capturing gains is to "harvest the low hanging fruit," but in practice, this isn't as simple as it sounds.

While some wins will come easy, it takes foresight and planning to make sure that a steady string of gains can be maintained. In practice, the goal should be to leverage data to better serve existing clients, attract new customers and build businesses that were not possible before. With these objectives in mind, it is possible to align inputs in a way that maximizes expected outcomes.

2

Chasing gains from data analytics

Data analytics is often seen as the holy grail that can deliver newfound insights and opportunities. In reality, wringing insights from a large amount of data stored in disparate sources can be difficult.

There is sometimes a reliance on magical thinking at play, as if the sprinkling of some data analytics "fairy dust" can produce incomparable insight. In reality, outstanding outcomes are the result of excellent preparation. This includes a frank alignment of desired business outcomes with technical capabilities and continued collaboration and conversation to learn from and improve results over time.

Additionally, sufficient resources to improve and expand fundamental data capabilities must be made available. Failure to do so will cause models to be data starved and lead to incomplete or misleading results that might have negative consequences. Time and money must be spent to make sure that the right amount of quality data is available for the tasks at hand.

3

Aligning business expectations with technology realities

When it comes to a mismatch of expectations and reality, the application of AI and ML is one of the top areas of concern. The field is young, but there is often an outsized expectation that the application of these disciplines to business questions will automatically lead to fantastic outcomes. As with data analytics, a frank understanding of what is and isn't possible along with solid communication is essential to establish a viable AI/ML program.

Importantly, this alignment should be consistent from exploration to production and it should extend beyond the simple confines of the problem at hand to include all elements of the affected business units, from staffing to funding.

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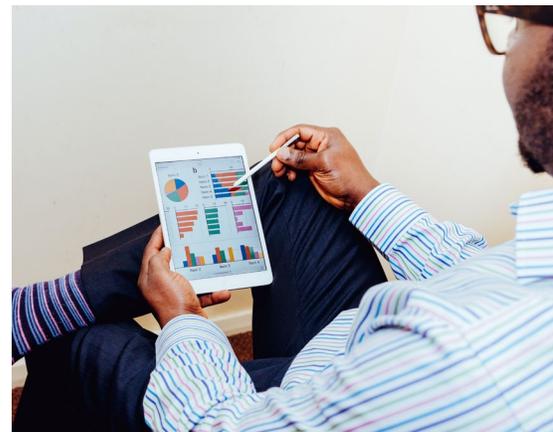
Results

Enhancing revenue is rarely a simple, one-step effort: it takes multiple factors combined together in a series of steps that often include iterative pivots and learning. However, when executed well, results can be broad, deep and sustained.

The National Bank of Canada (NBC) is an excellent example of learning along the way for how to best make use of AI/ML capabilities available from Google Cloud. Speaking at Google Next in 2019, David Furlong of NBC revealed how they grew revenue opportunities, customer and employee experience, and operational efficiency in their retail and commercial businesses with the assistance of AI. Importantly, Furlong detailed ways in which they got it wrong to begin with before changing course and building an approach that captured the potential of AI/ML.

The application of AI to the capital markets and trading sides of banking are well known and have been going on for some time, but it is relatively new for retail and commercial. The inherent risk aversion that comes with being so close to the customer not only makes the adoption of new technologies such as AI a tougher sell but, obversely, also means that the potential rewards are that much higher. Simply put, changing the way that you drive analytics also means that you have to change the way that you work.

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Area 3
Manage Risk and Security

Managing risk is always job number one for financial services firms, and new technologies afford the opportunity to tackle the issue head on. The adoption of new, flexible technology alternatives allows enterprises to "rip the band-aid off" when it comes to existing, jury-rigged solutions and adopt a modern and holistic security posture. Issues as divergent as fraud detection and management, [Anti Money Laundering and Know-Your-Customer (AML/ KYC) requirements](), and regulatory mandates are prime examples where new technology alternatives can help to dramatically lower risk.

Looked at from one perspective, the benefits of increased security can be hard to ascertain: what is the value of something that doesn't happen? Approach from the other side, however, and the benefits are clear. Recent research from the Ponemon Institute[4] found that the average data breach in financial services was $5.85 million in 2020, lagging only to pharmaceuticals and energy as the most expensive industries for the cost of cybersecurity lapses. And that doesn't begin to factor in the reputation risk and goodwill that are at stake. Financial services are highly sensitive—we're talking about people's assets and livelihoods—and also highly regulated. Too much is at stake to take risk and security lightly.

4. https://www.csoonline.com/article/3434601/what-is-the-cost-of-a-data-breach.html

Challenges

1

Increasing regulatory mandates

In all areas and across all parameters, the size and scope of regulatory mandates continue to grow, and it is unlikely this trend will subside. As the speed and ubiquity of the digital economy and the resulting tsunami of data continues to rise, so too do regulatory requirements, putting businesses in a double bind.

The public cloud is an ideal solution for the challenges posed by the rise in regulations. In addition to providing more flexibility and agility through modern technology and an ability to scale to meet changing demand, cloud technology also delivers a chance to collaborate with industry partners in ways that were unimaginable in traditional buttoned-down, siloed environments.
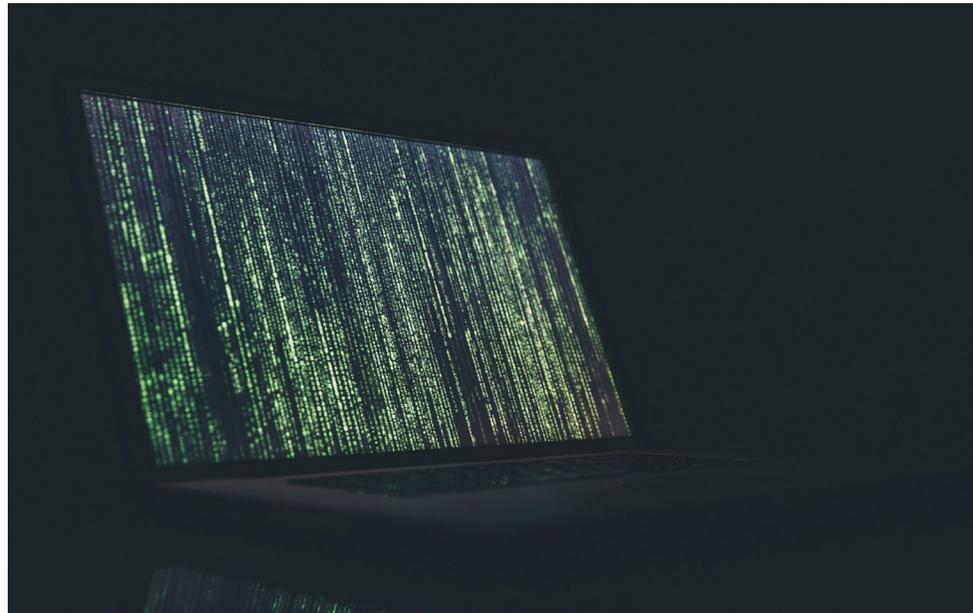
2

Managing data privacy

Data privacy and the ways in which data is managed is going to be a top business issue for the foreseeable future. Not only has the proliferation of data created previously unimagined challenges, but regulators of all stripes are keenly interested in ensuring that personal data is treated with the full weight that it deserves.

In short, Google is ideally suited to address the important issues of data privacy. The Google Cloud approach to encryption ensures that data is always encrypted both in transit outside of the Google environment and at rest within it. Further, Google provides numerous avenues for users to control their own data, including encryption keys, as well as control of access to data. In all ways, the Google model is built to address the needs of the modern enterprise when it comes to data.

> The Google Cloud approach to encryption ensures that data is always encrypted both in transit outside of the Google environment and at rest within it.

3

Cybersecurity threats

There is a never-ending increase in both the amount and sophistication of cybersecurity threats, and this trend will not be slowing down any time soon. Traditional business models that rely on high walls, thick perimeters and moat-like barriers simply can't be relied upon when faced with the unrelenting efforts of bad actors to cause mayhem.

Technology that is built in the cloud, or cloud-native, is inherently superior when facing contemporary cybersecurity threats. It is essential that old models be reviewed and new methods embraced whenever possible.

Technology that is built in the cloud, or cloud-native, is inherently superior when facing contemporary cybersecurity threats.

Results

The ascendance of the public cloud has completely altered the very nature of how risk and security management for the enterprise is viewed. Instead of the traditional mindset of deep moats and high walls as protection, the cloud approach emphasizes that security must be instantiated at each and every step along the way, making security an always-on / always-active proposition. As a result, a much stronger foundation for building risk management is established and new programs and initiatives can be established that make the most of enhanced technology and thereby deliver risk protection that was previously out of reach.

For example, as highlighted in the white paper "Securing PII Data in the Cloud for Financial Services", a leading fintech "unicorn" was able to safely and securely migrate data and processes to the cloud, including PII data for 85 million customers, in a way that not only conformed to the highest security and data protection standards but also simultaneously lowered costs and increased features and functionality. Clearly, the public cloud can significantly bolster and improve the security and risk profile for financial services institutions.

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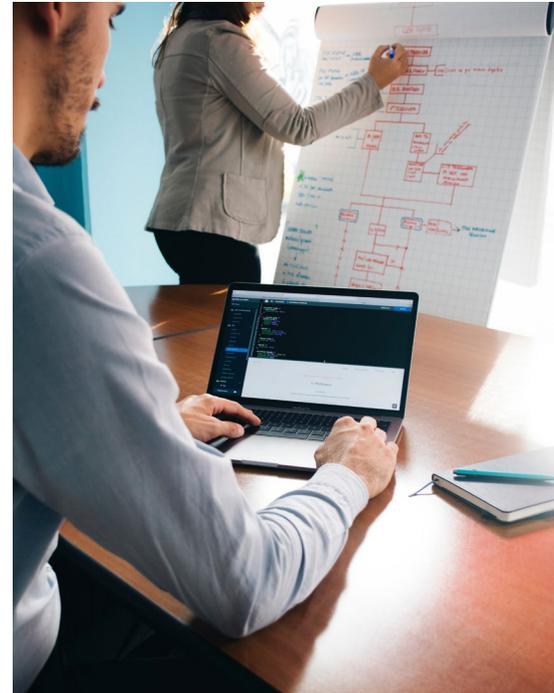
Area 4
Increase Efficiency

It goes without saying that a key objective for business is to improve efficiency. While this has always been (and always will be) the case, current economic conditions and the relentless pace of change that is created by the emergence of new technologies make it critically important to relentlessly pursue efforts to enhance enterprise efficiency.

This means working smarter, not necessarily harder, and it extends into multiple directions simultaneously, including business processes, developer tools and protocols, and infrastructure.

While there is an obvious bottom-line-driven focus to increasing efficiency, other factors are at play as well. For example, building and maintaining a high-efficiency enterprise also impacts the ability to attract and retain the most talented employees. Competition for talent is high and one important factor for top performers is the existence of an environment that utilizes the very best of collaboration tools. It is too easy to overlook this critical component, but the most desirable, modern workers require that the tools at their disposal make their tasks easier, not harder.

Challenges

Just as a drive for efficiency is an eternal goal for business, the road to the destination is full of obstacles and checkpoints along the way. Here are some of the biggest challenges along with how they can be addressed:

1

Scope

Bringing change to thousands of users across hundreds of locations is always a challenge. Too often, such efforts fail because there is a disconnect between what is realistic and what is expected. To counter this, it helps to aggressively scope and plan for the effort and to set discrete, specific goals for each step along the way.

2

Resistance to change

It's only human nature – people come to depend on their existing solutions and getting them to learn something new is no easy task. This is particularly true when the organization employs multiple generations. In some cases, users may have used their existing collaboration and productivity tools for decades.

As a result, it is critically important to place what may seem like an overemphasis on training and communication to accompany the transition. Getting an early start and enlisting and training internal advocates goes a long way to make sure that the organization embraces the new solution. Overall, it is prudent to invest heavily in change management and to do so right from the very beginning of the effort. It is this commitment that will make all the difference in ensuring that the program easily overcomes the challenges that it is likely to face in the early going.

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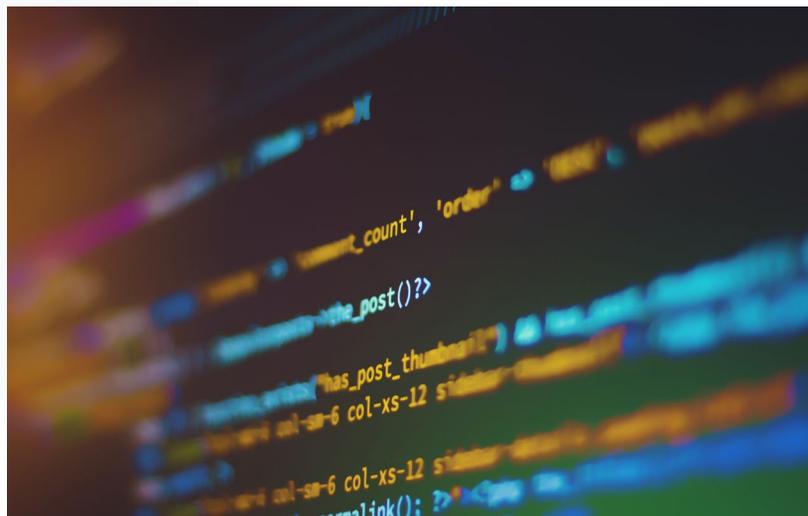
3

New focus needed on browser–based security

The shift from the fortress mentality of on-premise security to distributed, cloud-based security will expose some problem areas. Data that was "safe" within the parameters of existing security will now need to be redacted and otherwise shielded from exposure.

Ironically, the truth is that the data was often not "safe" within the existing security protocols and systems. Revisiting the issue in the midst of a switch to Google Workspace gives the enterprise the opportunity to finally get things right. It is probably best to take a staged approach where some data is held back and shielded. As processes and protocols are developed, this data can be included in the effort down the road.

Data that was "safe" within the parameters of existing security will now need to be redacted and otherwise shielded from exposure.

Results

The possibilities that ultimately emanate from an increase in efficiency that derives from public cloud adoption are both foundational and self-reinforcing. Put another way, public cloud enables the basis on which enhanced communication and collaboration, and by extension efficiency, can be increased. This very act then leads to creating a positive cycle of continuous improvement and ever-increasing gains in customer satisfaction, product innovation, and more.

Ultimately, success depends on taking a long-term, big-picture view of the problem and holding fast to the belief that getting it right means hitting a home run and that no other result will do. Buy-in and active, engaged support from senior management is a prerequisite for success: you need to get the C-suite to actively support and reinforce these efforts for them to be fully fruitful.

Ultimately, success depends on taking a long-term, big-picture view of the problem and holding fast to the belief that getting it right means hitting a home run and that no other result will do.

**Increase Efficiency:
Use case: A Big Bank Makes a Big Bang with
Google Workspace**

When a top ten U.S. bank looked to transform their ability to collaborate and build a modern technology environment, they turned to Google Workspace. With over 65,000 users and more than 400 terabytes of data, the bank was able to deploy the full complement of the collaboration toolkit in an aggressive timeframe of only five months.

The primary objective of the project was to shift the standard by which collaboration was executed within the bank and create a dynamic environment that gave greater power to employees while simultaneously enhancing the security posture of the enterprise. While these objectives are viewed as competing or incompatible in legacy IT environments, they are intrinsically linked in a cloud-native solution like Google Workspace. In a highly regulated environment like financial services, the very highest levels of security are required, and Google Workspace met or exceeded all requirements.

The adoption of Google Workspace delivered a number of benefits to the bank. First, the ability to share and collaborate in real-time, removed from restrictions caused by version control and disjointed connectivity, delivered immediate benefits in terms of creativity, communication, and speed. Further, the greater flexibility from expanding to include connectivity beyond the desktop, including BYO devices like pads, notebooks and phones, dramatically improved efficiency. In addition, the bank achieved significant cost reductions by replacing the incumbent solution. Finally, the re-platforming included a refreshed and enhanced look at security. There are distinct differences between on-prem and cloud-based solutions, and these must be addressed in order to ensure compliance in what is a highly regulated environment. This included internal efforts to build and deploy solutions that actively scan all

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documents and communication to identify and redact or otherwise protect sensitive data. In doing so, not only was security rationalized, it was done so in a way that insured ongoing compliance and provided ready means to meet reporting and auditing requirements.

One important but "soft" factor in converting to Google Workspace was the non-trivial need to attract the best talent. The siloed and hardened IT environments of traditional solutions providers stifle creativity and collaboration and are a barrier to attracting and retaining the talent that will drive the enterprise of tomorrow. With Google Workspace, it is possible to build the creative, collaborative and inclusive environment that is necessary to grow a business today and in the future.

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Don't Abandon Digital Transformation Just Yet

Misgivings regarding the use—some might say overuse—of the term "digital transformation" have their merits, but the fact remains that the combination of these two words is still the best way to describe how new technologies are affecting old processes and leading the way to the enterprise of the future. Just as when famous author and humorist Mark Twain responded to a reporter's inquiry on his health by saying "the reports of my death are greatly exaggerated[5]", so too are those who want to relegate "digital transformation" to an early grave.

Digital transformation in financial services is inevitable and the arrival of COVID-19 has simply accelerated this trend. The opportunities available through digital transformation are huge and the financial services firm of the future needs to embrace the technology and practices that make digital transformation possible if they want to survive and thrive.

"The reports of my death are greatly exaggerated."
– Mark Twain

5. In truth, Twain wrote to the reporter that "the report of my death was an exaggeration" but the phrase has been altered over time. https://www.mentalfloss.com/article/562400/reports-mark-twains-quote-about-mark-twains-death-are-greatly-exaggerated

Maven Wave helps drive the future of financial services with innovative business outcomes, fueled by Google Cloud, with risk top of mind. Google Cloud drives business transformation across Banking, Capital Markets, Insurance, and Payments to support data-driven innovation, customer expectations, and security & compliance needs. Contact us to learn more.

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