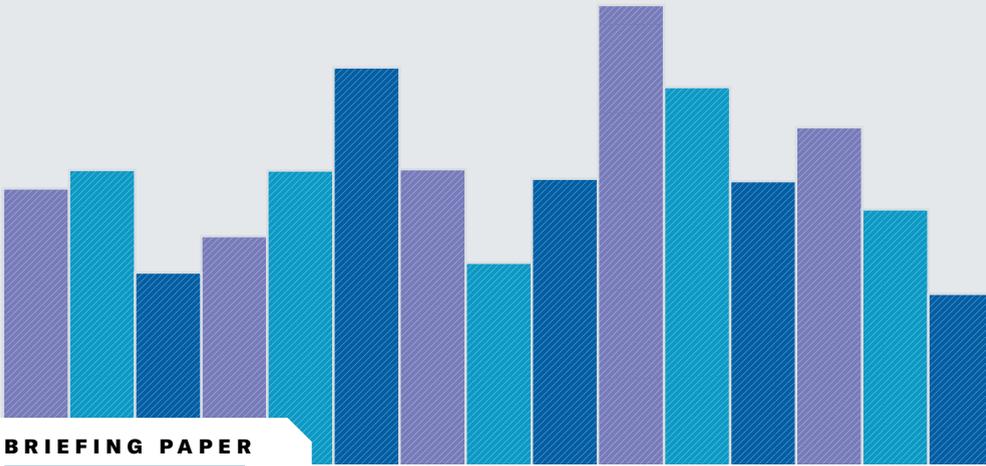




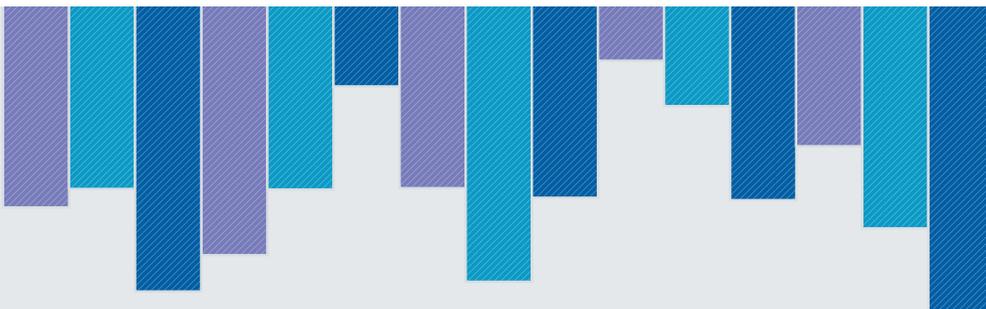
**Harvard
Business
Review**

ANALYTIC SERVICES



BRIEFING PAPER

Reimagining Financial Services Transformation for 2021 and Beyond



Sponsored by





Dr. Richard Harmon
Vice President, Financial Services
Red Hat

A Changed World

The last 12-plus months have illustrated how quickly the world around us can change. Business resiliency plans vaulted into action as offices shut down and physical contact with customers was limited. The shift to digital and remote work was well underway before the pandemic took hold, but the pace has a new sense of urgency, as more customers than ever are firmly tethered to their digital devices and employees continue to work remotely.

Will this be the inflection point where digital laggards catch up to leaders, or will the gap continue to widen? The full impact of the pandemic won't be known for several years, but this report shares some important clues to help guide your digital strategy forward.

Closing the Skill Gap

Our customers are using cloud technology as a potent part of their digital strategy, but technology is only one component. A successful digital business is not possible without addressing the talent it requires to compete. Financial services executives know that they won't be able to take full advantage of the technology propelling the digital revolution without acquiring the talent they need to thrive. Whether that means changing recruitment, retention, and reward practices or investing in training and development programs, those that thrive will also have made the commitment to build a future workforce that can compete digitally.

Simplifying the Business and Technology Landscape

It is no surprise that financial services organizations have yet to realize their full digital agenda, with almost one in three in this report stating technology complexity is holding them back. The reality is that many generations of technology have accumulated over time to support a growing number of products and distribution channels that cannot be replaced simultaneously. Nearly half of financial executives in this report also mentioned updating

existing business processes as a challenge, slowing down modernization. For many, this means directing attention towards the cloud, to shift an ever-greater portion of operations and hosting support as they progressively transform their technology estate.

Extending the Customer Experience

The number of devices and places where a customer may engage digitally continues to grow. The simple truth is that a digital business will need to connect its customers with experiences other than its own. This shines a bright light on mastering application programming interfaces with the need for enhanced and consistent data security as sensitive data is shared in more places.

Streamlining (and Accelerating)

Financial Service Processes

The allure of digital is no longer just about access; it is also about speed, automation, and artificial intelligence. Taking out delay and adding more intelligence not only drives better experiences but also reduces costs. We believe cloud technology is an important enabler in bringing diverse data, people, and processes closer together in a secure manner to unlock new levels of straight-through processing, speed, and relevance. This not only improves the customer experience but also helps differentiate products and services.

Looking Ahead

As the initial shock of the pandemic subsides, the future of financial services will clearly be shaped by a thriving digital business, including the underlying technology which enables it. We are sure you will find this report insightful as you plot the next steps in your business strategy.

Reimagining Financial Services Transformation for 2021 and Beyond

Count the financial services industry among the many business sectors fighting their own unique battles against Covid-19 disruptions. Greater reliance on online services by banks and video meetings conducted by wealth management firms are just two examples of how the industry quickly pivoted to keep operations running. It's not surprising then that financial services executives, like their peers in other industries, are taking a fresh look at their digital transformation strategies.

The recent Harvard Business Review Analytic Services report, "Accelerating Transformation for a Post-Covid-19 World," shows through qualitative research and a quantitative survey that digital transformation has become more important than ever for organizations across all industries. As a result, the vast majority of companies are accelerating transformation efforts and reprioritizing business goals in the wake of the Covid-19 crisis. Further analysis of data from the 80 financial services industry respondents who participated in that survey reveals that while this group is also redoubling its transformation efforts, these executives are doing so with some important differences compared to decision makers in other industries.

One difference is seen in how important the goal of business continuity and resiliency has become for the financial services sector. For example, an analysis by industry of responses to the Harvard Business Review Analytic Services survey shows that resiliency is the highest priority for 44% of financial services executives, and that that goal has grown in importance by double-digit percentages for this sector since the start of the pandemic. In addition, at rates substantially higher than in other industries, executives in financial services plan to increase investments in business-process

HIGHLIGHTS



88% of financial services executives say the Covid-19 pandemic has **accelerated the timing of their organization's digital transformation** efforts.



61% of respondents from financial companies, versus 50% of respondents from all industries, **plan to invest in business-process automation technology** over the next 12-18 months.



53% of the financial services executives surveyed **describe their transformation strategies as being effective** since the pandemic, up sharply from 24% before the outbreak.



“Because of the pandemic, financial services companies had to go from experimentation to the rapid scale-up of digital capabilities,” says Bharat Poddar, managing director and senior partner at the management consulting firm Boston Consulting Group.

automation (BPA) and artificial intelligence (AI). Analysts say new priorities and investment plans show how the financial industry is rethinking what will fuel business success in the months ahead.

“Because of the pandemic, financial services companies had to go from experimentation to the rapid scale-up of digital capabilities,” says Bharat Poddar, managing director and senior partner at the management consulting firm Boston Consulting Group, headquartered in its namesake city. Moving quickly to launch new digital services grew in importance as customer interactions shifted from conference rooms and branch banks to video meetings, mobile applications, and online banking services, Poddar says. Covid-19’s impact also disrupted internal operations as staff adjusted to remote workspaces, he adds.

Cloud services played and continue to play an important role in the industry’s accelerated transformation efforts. “Pre-pandemic, the conversations around the value of cloud focused primarily on cost reduction and modernizing legacy technology,” says Monica O’Reilly, vice chair and U.S. financial services industry leader at Deloitte, a management consulting firm headquartered in London. “Those conversations are evolving as executives realize that cloud opportunities are above and beyond what were seen originally,” such as promoting enterprise agility and creating new types of customer-facing services.

To compete and grow in a post-pandemic world, financial services firms should gain a better understanding of today’s

business imperatives, address lingering challenges that can impede future transformation progress, and implement the latest best practices for promoting technology modernization, updating business processes, and changing internal cultures. One thing is clear: It’s time for financial services executives to update their approaches to digital transformation.

The Pandemic’s Aftershocks

While financial services organizations may have been actively managing digital transformation projects prior to Covid-19, most were seeing only modest success, according to the financial services executives responding to the Harvard Business Review Analytic Services survey. When asked to consider the performance of their strategies before the outbreak, only 24% of the survey respondents rate their efforts as effective. The remaining 76% likely “faced a moment of reckoning” once the pandemic struck, Boston Consulting Group’s Poddar says. Covid-19 spurred financial services firms to unleash a “demand tsunami” for new digital services, he adds.

In response to this demand, 88% of financial services executives surveyed say Covid-19 has accelerated the timing of their organization’s digital transformation efforts. The good news isn’t just that the financial services industry is modernizing more quickly, but that its efforts are paying off. More than half (53%) of the executives surveyed describe their transformation strategies as effective since the pandemic, up



“Executives are refocusing and accelerating their plans to keep pace with customer expectations. We’re not going to go back to a time when a customer waits a week or two for a credit card to show up in the mail,” says Monica O’Reilly at Deloitte.

sharply from 24% before the outbreak. Some changes, such as implementing digital processes, had been on company drawing boards but weren’t being rolled out to customers, according to Poddar.

Widescale changes to internal operations and customer services are causing financial services executives to shift business priorities. For example, organizations that sped the rollout of new digital and online systems in reaction to the pandemic now must ensure these capabilities are reliable, long-term solutions. As mentioned earlier, respondents from the financial services industry say a top priority today is improving business continuity and resiliency, a goal that spiked 26 percentage points since before the pandemic. **FIGURE 1**

It’s not surprising that financial executives want to boost resiliency given the fundamental threats to their businesses since early 2020. But the survey respondents aren’t just maintaining a defensive posture. Executives say high priorities also include increasing agility associated with operations and business workflows, creating new business applications designed to quicken innovation, and enhancing customer satisfaction. Each of these goals reflects desires to not only quickly adjust to unexpected future disruptions, such as a pandemic, but to also help companies deliver new products and services to better serve customers as their needs evolve.

“Executives are refocusing and accelerating their plans to keep pace with customer expectations,” Deloitte’s O’Reilly says. “We’re not going to go back to a time when a customer waits a week or two for a credit card to show up in the mail.”

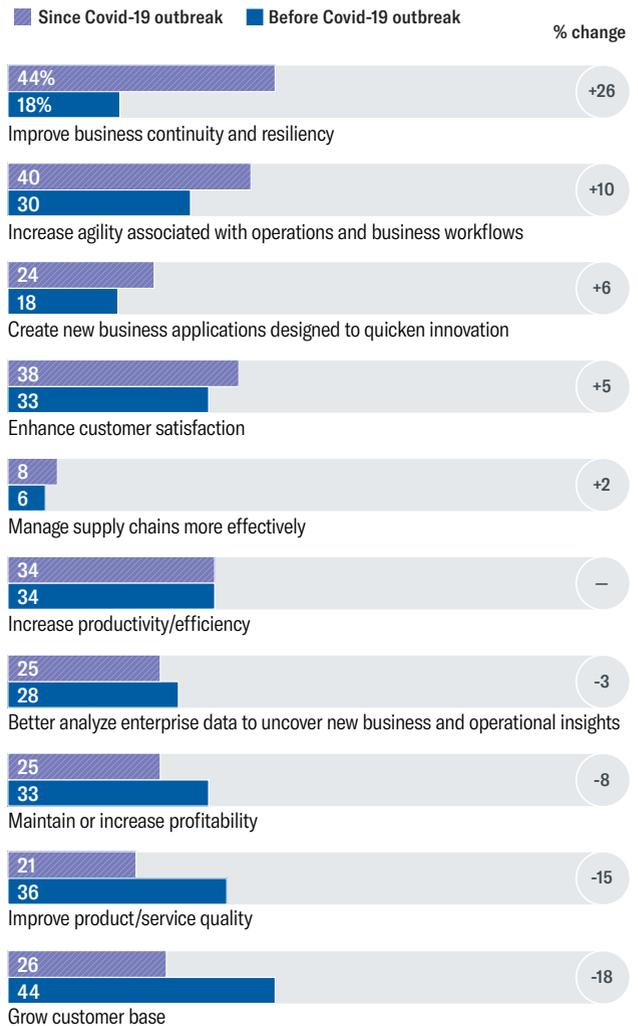
How can companies enhance modernization efforts over the next 12–18 months to meet high-priority business goals? Industry analysts say fundamental adjustments to transformation strategies—and new ways of looking at technology, culture, and business processes—will likely

FIGURE 1

Transformation Requires Resiliency

Financial services executives reprioritize business goals around business continuity

What were the primary business goals for your organization’s overall digital transformation efforts before and since the Covid-19 outbreak?



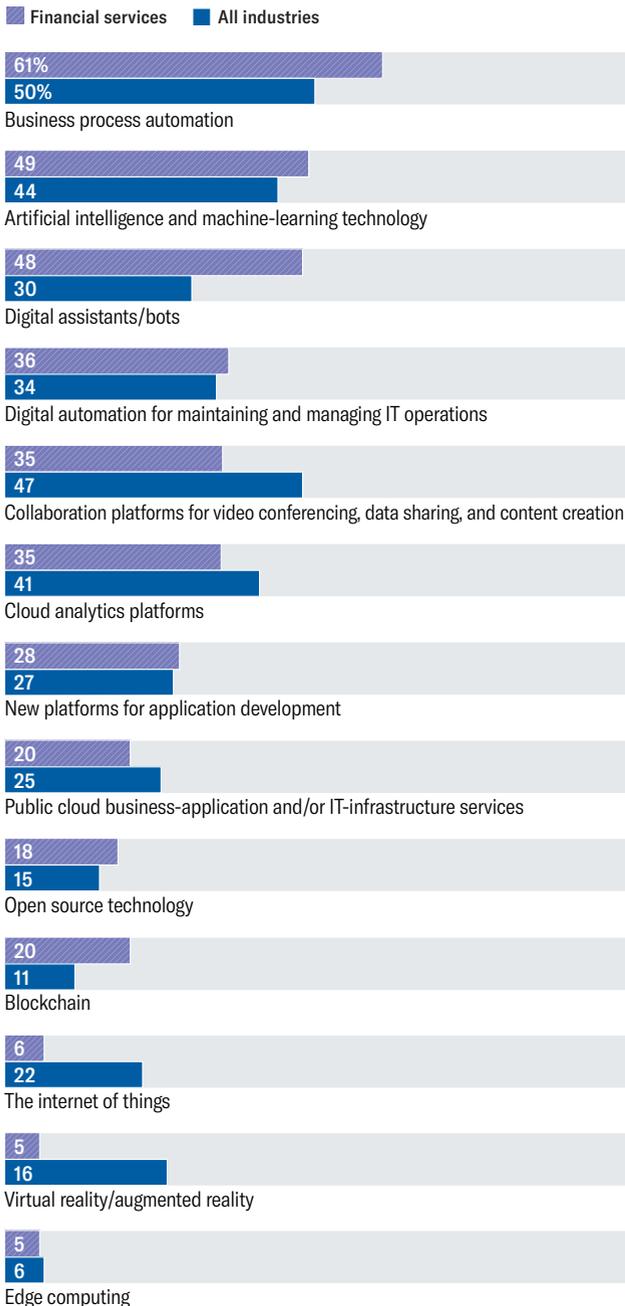
Source: Harvard Business Review Analytic Services Survey, February 2021

FIGURE 2

Financial Services Firms Focus on Automation

The industry distinguishes itself by its desire to modernize business workflows

What new technologies is your organization planning to invest in over the next 12-18 months to support digital transformation?



Source: Harvard Business Review Analytic Services Survey, February 2021

be necessary for many financial institutions. One way to keep multifaceted strategy adjustments on track is to link modernizations closely to today's top business priorities.

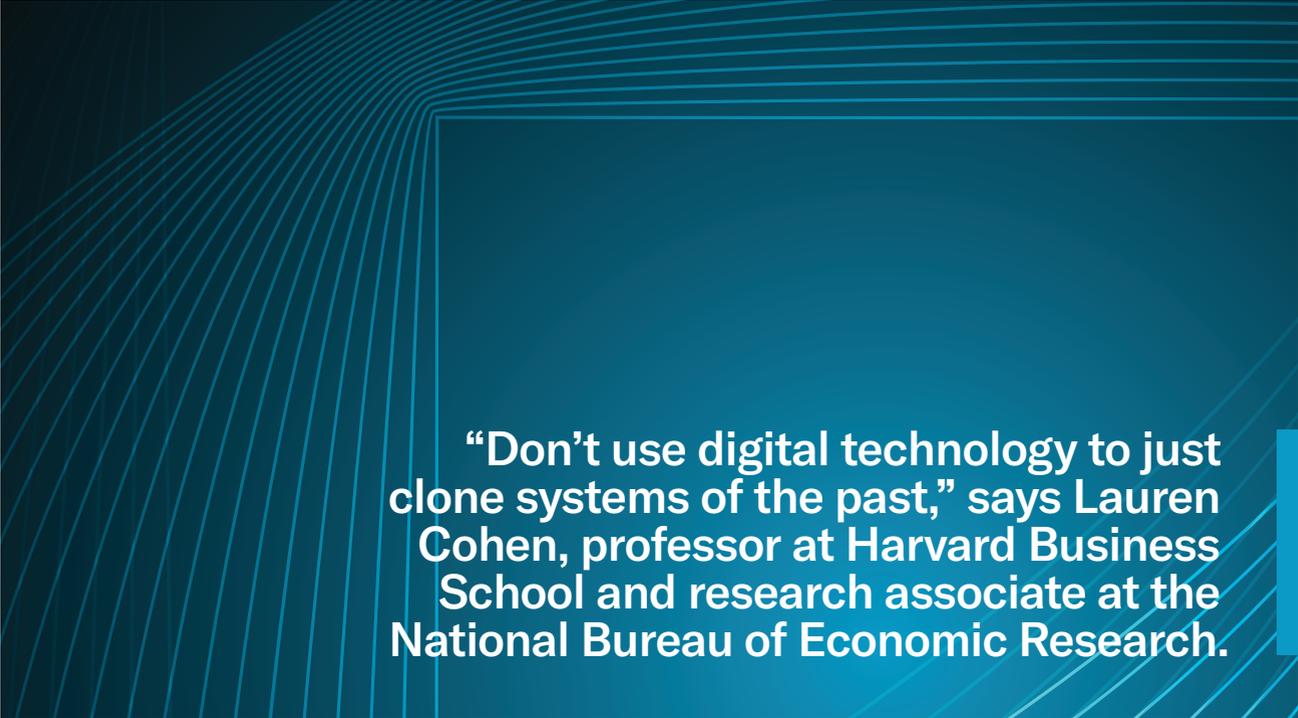
Addressing Top Business Goals

Resiliency

Technology has long played an important role in the evolution of the financial services industry, notes Lauren Cohen, L.E. Simmons professor in the Finance and Entrepreneurial Management Units at Harvard Business School and a research associate at the National Bureau of Economic Research. "The field of finance has been incorporating cutting-edge innovation over its entire life—we've had fintech since the start of 'fin,'" he says, pointing to everything from early Babylonian tablets inscribed with commercial codes to today's plastic money. "The difference is that the industry is running faster and has better tools than it ever did before."

Given the industry's long embrace of innovation, it's understandable that financial services executives will look to technology to help improve business continuity and resiliency as they develop plans over the next year and a half. A key technology component will be platforms for automating business processes. Financial services firms will be investing in BPA in much higher percentages than companies across all industries. **FIGURE 2** Sixty-one percent of financial companies, versus 50% of respondents from all industries, plan to invest in BPA technology over the next 12-18 months. Companies can also boost resiliency with digital automation for maintaining and managing IT operations, another of the top five technologies on the investment lists of financial services executives. Automation that streamlines processes and eliminates manual steps overcomes unreliable legacy workflows, while IT automation helps ensure timely security patching and other routine maintenance tasks. In addition, AI and machine learning technology, two additional elements in continuity playbooks, are higher-priority investments among financial services firms than for industries overall by a margin of 49% versus 44%, respectively. "One bank in Europe is leveraging AI and data to sense problems before they happen," Poddar says. "By leveraging the power of AI and advanced analytics, the bank hopes to respond faster" to future disruptions.

Technology isn't the only focus. As previously noted, financial executives responding to the survey are making resiliency and disaster recovery a higher priority than in the past. Industry analysts say reprioritizations are leading some firms to refresh their resiliency plans. "The old way of addressing continuity was to figure out everything that could go wrong in certain parts of the organization or geographical regions," Poddar says. "Plans were very



“Don’t use digital technology to just clone systems of the past,” says Lauren Cohen, professor at Harvard Business School and research associate at the National Bureau of Economic Research.

disintegrated—department by department, function by function, location by location. Now, executives understand that things can go wrong across an organization, and that requires a different level of preparedness.”

Poddar advises companies to develop holistic recovery plans that start with organizational assessments of potential business risks. A centralized, enterprise-wide approach to overcoming breakdowns helps eliminate continuity gaps that exist between individual functions. “Create an integrated recovery plan that is managed by senior executives who can look across the organization to make sure all the resiliency elements are tied together,” he says.

Agility and Innovation

To tackle the important goals of increasing agility and innovation, financial services firms may need to further automate their infrastructures to quickly adapt to unanticipated requirements in the future. “Don’t use digital technology to just clone systems of the past,” Harvard’s Cohen says. “Most financial firms understand that, but those that don’t are going to be sunk. Tomorrow’s systems will look different than today’s, and being modular is critical” for enabling flexibility.

BPA technology can play an important role in furthering business agility. Process automation contributes to agility by creating straight-through workflow processes, which address a shortcoming that has plagued previous transformation

projects. When setting transformation priorities in the past, many financial institutions focused on modernizing front-end, customer-facing services and separately on automating back-end processes. Both initiatives were valid—new capabilities for customers can improve a host of common services, such as setting up new bank accounts, while back-end robotics and AI can speed credit-application approvals, for example.

But consultants warn against only modernizing portions of workflow processes. Without digital capabilities that tied front and back ends together, financial services firms weren’t achieving the full potential of their transformation investments. “By not connecting the front and back ends, companies were just reengineering the old processes without taking advantage of all the good things that happen with digitalization,” Poddar says.

Implementing process-automation technology is important for agility; however, other areas beyond technology also should be addressed. Cultural change is important for agility and innovation, says Chris Skinner, a London-based financial-industry commentator and author of the book *Doing Digital: Lessons from Leaders*. He advises financial services organizations to create teams of technology and business people who can draw on their unique expertise to promote flexibility and new thinking. One large bank he researched told him the company used to be composed of 30,000 individuals, but now sees its staff as 3,000 teams, with people representing various departments. “Within those



“Data and analytics can help institutions offer products and services that are seamless with other aspects of each customer’s relationship, which creates a much better experience for a customer,” says Monica O’Reilly at Deloitte.

teams, there is always a project designer and developer, but also people from risk, credit, compliance, and whatever other functions” are relevant to the endeavor, Skinner explains. The emphasis on teams rather than individuals drives home the point that successful transformation requires a group effort rather than the work of a single office.

To ensure that cross-functional teams are aligned, companies may need to cultivate an appreciation of digital transformation among a core group of workers—middle managers in business departments. A large, traditional bank that Skinner researched allows middle managers and others to spend time over a couple of months in the company’s innovation center to learn how to develop software and hone social-media skills to better understand customers.

“Senior leadership and frontline people are clear about what they want to achieve with digital transformation,” Skinner says. “But people in the middle—the line of business managers, for example, may fear that change means they will lose their jobs or their empires. Senior leaders have to get these people to participate and feel that they can contribute to the change. Reskilling is part of that.”

Customer Experience

Financial institutions can address another high priority, improving customer experience (CX), by using data and analytics more effectively. CX-centered financial institutions are applying AI and other advanced analytics to large volumes

of client data to personalize communications and strengthen customer relationships, O’Reilly says. “Data and analytics can help institutions offer products and services that are seamless with other aspects of each customer’s relationship, which creates a much better experience for a customer,” she explains. So, when a customer applies for a loan, a bank may suggest either a savings plan for college or one for retirement, depending on the person’s demographic information, she adds.

Banks skilled at using analytics for CX may also proactively offer spending advice tailored to individual customers. For example, an analysis may show that a client swipes a bank card to pay a daily subway fare rather than buying a discounted monthly or annual pass. The bank may send a message saying the customer may be spending more money than necessary and invite the person to enter the number of their bank’s credit card to buy season tickets, Skinner says. “The bank is showing an intelligent way to save money by choosing that option” while the company increases the use of its products, he says.

A skillful use of analytics can help organizations address another important objective—measuring the success of their overall digital transformation efforts. The survey found that respondents are expanding their view of business success beyond traditional metrics, like profitability and revenue generation, by also looking closely at transformation-related measurements, such as operational efficiency, speed to



61%

**of financial companies,
versus 50% of
respondents from all
industries, plan to invest
in BPA technology over
the next 12-18 months.**



“Over time, if digital transformation is driving efficiency, the number of people involved in back end processes will be going down, while those in sales and advisory are going up. That’s the litmus test for me,” says Bharat Poddar, managing director and senior partner at Boston Consulting Group.

market, introduction of new products and services, and cultural change.

To focus more closely on metrics related to modernization, Poddar advises financial services executives to track the percentage of people in the bank assigned to sales and advisory roles versus back-end staff running manual processes. “More and more people should be in sales and advisory positions, while fewer and fewer people should be devoted to back-end processes,” he explains. “Over time, if digital transformation is driving efficiency, the number of people involved in back-end processes will be going down, while those in sales and advisory are going up. That’s the litmus test for me.”

Carefully tracking the evolution of workforces as automation replaces manual processes not only helps executives monitor the pace of transformation efforts but also reveals where organizations may focus reskilling and talent-development resources.

Executives are also looking for help beyond their organizations. In the early days of digital transformation, many companies had to pioneer modernization strategies. The low percentage of respondents who described their pre-pandemic transformation efforts as being effective may reflect one risk of forging alone into new territory—companies can’t take advantage of lessons learned by others. Today, financial services executives have more opportunities to collaborate with industry consultants and digitally savvy peers in other business sectors. “Financial services companies don’t want to experiment; they want advice and expertise to help get this right this time,” Poddar says. “There are many more experiences globally now about what does and doesn’t work for digital transformation, and there’s a high demand for these types of insights.”

Forging a Collaborative Future

Financial services may still be grappling with the aftershocks of Covid-19, but the global challenge isn’t keeping them from imagining a post-pandemic future. Survey respondents are accelerating their digital transformation efforts and reprioritizing business goals. They’re taking steps to boost business resiliency and increasing agility and innovation in business operations. They’re also putting greater emphasis on CX by using advanced analytics to tailor engagements with clients. To help ensure success in these areas, financial services firms are harnessing a wide range of expertise by creating more collaborative internal teams representing a variety of business and operational departments.



Harvard Business Review

ANALYTIC SERVICES

ABOUT US

Harvard Business Review Analytic Services is an independent commercial research unit within Harvard Business Review Group, conducting research and comparative analysis on important management challenges and emerging business opportunities. Seeking to provide business intelligence and peer-group insight, each report is published based on the findings of original quantitative and/or qualitative research and analysis. Quantitative surveys are conducted with the HBR Advisory Council, HBR's global research panel, and qualitative research is conducted with senior business executives and subject matter experts from within and beyond the *Harvard Business Review* author community. Email us at hbranalyticservices@hbr.org.

hbr.org/hbr-analytic-services