Introduction

In December, an Economist article outlined the plans of two industrial giants - Germany’s Siemens and General Electric of the US - to readjust their business models to optimise their growth opportunities in an increasingly digital and data-driven business environment.

The fact that two of the world’s oldest and largest conglomerates are currently wrestling with digital transformation underlines the difficulties and the importance of the challenge posed by today’s fast-evolving multi-channel world. As does the fact that the two firms are overwhelmingly business-to-business (B2B) rather than consumer-facing organisations.

To date, retail, travel and entertainment have been among the most deeply impacted sectors by digital technology innovation - transformed by Amazon, AirBnB and Netflix among others - but no industry is untouched. Value propositions and supply chains are being reassessed and restructured across markets and geographies. Nowhere is this more evident than in financial services, insurance and banking (FSIB).

Incumbents in this space face many and varied challenges. From Solvency II to MiFID II and beyond, regulatory reforms are hiking the costs of doing business and closing off many traditional revenue streams, often in league with prolonged macro-economic uncertainties. As FSIB firms find their room for manoeuvre cramped by regulatory and budgetary constraints, they are being outflanked by nimble ‘fintech’ rivals that are trading on their ability to deliver more responsive and flexible retail financial services across multiple digital channels and are increasingly threatening to target the B2B space. Little wonder that FSIB firms are pondering the size, shape and scale of digital transformation programmes to respond to these challenges.

In this context, business change optimisation techniques can help to ensure that such programmes achieve their short and long-term objectives, rather than proving at best a distraction or at worst leading up a strategic dead-end. “Firms need to ask themselves three things: are you ready for change; are you changing the right things; and are you changing things in the right way,” says Anthony O’Hara, Practice Head - Business Architecture, Design & Analysis at Certeco.

Behind the curve?

FSIB might be behind the digital curve, but there are some good reasons for this, as well as benefits of learning the lessons from the digital transformation challenges and experiences from other sectors, according to Mark Becker, an advisory board member at Certeco and a former...
managing director at consultant groups Atos and KPMG. “FSIB is a traditional industry that hasn’t had the flexibility or speed of other industries in achieving digital transformation, in part due to its reliance on legacy systems. Trust and security issues have also been a constraint: FSIB firms have to maintain customer trust in their data security capabilities as a matter of priority; at the same time, those firms operate in a tighter regulatory environment than other sectors regarding information security,” he explains.

These factors might slow the industry's adoption of digital channels and related technologies, but they enable FSIB firms to benefit from best practice established in other industries on how and where to leverage opportunities afforded by recent innovations, including decisions on which activities and interactions to execute via the various digital versus more traditional channels.

“In the retail space, the three key pillars of firms’ multi-channel strategies have been customer loyalty, customer satisfaction, and customer growth,” says Becker. “Based on the experience of the retail, travel, leisure and telecom sectors, a very clear model has emerged on which business processes multi-channel can support, including: marketing and pre-sales; search and sales; order fulfilment and delivery, customer retention; and service or product support. Finally, it should support the collection and analysis of feedback for use in marketing and offering new products and services.”

“A very clear model has emerged on which business processes multi-channel can support.”
Mark Becker, Certeco

The importance of these processes to the overall value proposition to customers varies not only between industries but also firms, of course. As such, the level of investment a firm makes in digitising its fulfilment process or migrating service delivery to a mobile app, for example, will be informed by its wider impact on the bigger strategic picture.

Clear strategic vision
As in other sectors, a key distinction is often made between retail and wholesale-focused FSIB firms. While B2C firms’ use of digital channels is driven very much by customer satisfaction considerations, Becker notes, B2B firms may be focusing more on seamless, efficient delivery service. The challenges and opportunities for the latter may be different, but are no less profound, says Richard Morecroft, Senior Partner for Strategy and Leadership at Digital Works Group.

“A B2B business doesn’t necessarily have to be multi-channel, but it will have a digital element and a transformation requirement. For any business, it’s important to get a very clear understanding and vision of how will multi-channel change your business,” he says. “Before you go too far down the path, you have to have a very clear picture of how it will operate and how it work. Will consumers embrace the digital channel?”

“First, you need to understand your strategic aims.”
Anthony O’Hara, Certeco

In this respect, the process of deciding which channels and platforms to use for which processes, interactions and relationships bears comparison with certain other major and / or complex change management projects, in terms of requiring a holistic approach, senior
management ownership, appropriate metrics and risk management tools, as well as employee and stakeholder engagement policies, within a flexible project framework.

FSIB firms may need to go back to basics before they can plan for the future. “As a firm, you may or may not be fundamentally changing your business model by implementing digital technologies. First, you need to understand your strategic aims. Are you looking for increased customer intimacy? Are you looking for more flexible products? Are you looking for more operational efficiency? All three of these elements might be wrapped up in a strategic goal of becoming more relationship focused as opposed to transactional focused,” says Certeco’s O’Hara.

Having reaffirmed or re-evaluated their objectives, senior management can then focus on the value proposition they wish to provide to customers and the business capabilities required to satisfy customer needs. “Once you’ve got that view, you can start to overlay your technology enablers,” he comments. “You might say: ‘As an insurance organisation, claims management is an important business capability: it’s not performing well: how can digital technology improve delivery to the benefit of both the organisation and the end customer?’

Crucial components

Large financial institutions with multiple business lines, complex supply chains, fragmented legacy systems and diverse customer bases cannot construct a single digital transformation plan, but they can adopt some core principles to guide the identification and execution of change management projects aimed at leveraging digital technology innovation. In the experience of Hugh Hessing, UK Customer Services Director of Aviva, and formerly transformation director at the insurance group, a holistic approach and meaningful metrics are crucial components for success.

At Aviva, any digital transformation project must include clear, measurable objectives, against which it is measured at various stages in its development, launch and subsequent lifecycle, before budget is committed. Failure to meet the pre-agreed metrics will see the sponsor charged a higher rate of interest or in extremis barred from initiating a future project; successful sponsors will benefit from preferential treatment.

“If someone wants to build a new digital platform, we want to know how it is going to make easier for customers. We ask: ‘What are the key performance indicators (KPIs) that will prove customers are happier or operating processes are more efficient? What are the measures to show clients stay on the site longer and buy more?’ We get right down to the nitty-gritty and that process takes time,” he says. “We measure during the change process, using metrics appropriate to the specific type of project, but we also then continue to track certain KPIs once it goes live to assess key outcomes. We might measure whether it effected the desired change in customer behaviour or the change in financial performance at a micro level to help build up the macro level assessment.”

“*We measure during the change process, using metrics appropriate to the specific type of project.*”

Hugh Hessing, Aviva

A key aim of this approach is to ensure all approved change projects take into account all elements required to achieve proposed outcomes, although Hessing admits success is not guaranteed. “In one case, we quickly put together a unique and innovative packaged product proposition, but did not focus sufficiently on the marketing campaign to sell the new proposition to customers and as such the product undersold,” he explains.

A more successful example is Aviva’s use of data analytics as part of its efforts to improve the speed of claims payments to customers. “By measuring claims end-to-end service time and first point resolution, we gradually identified and overcame all the barriers to paying claims more accurately and quickly, often by empowering frontline staff. We invested in analytics to measure
multiple KPIs which helped us achieve lots of small improvements that added up to a) much more efficient processes and b) very satisfied customers who were being paid the right money at the right time,” explains Hessing.

The detail behind these incremental claims management improvements highlights the importance to change management projects of both following through a process ‘from cradle to grave’, and of involving staff deeply in the execution of new initiatives. At one level, the claims management project armed frontline staff with data, tools and skills to make decisions more quickly; at another, Aviva overhauled its electronic supply chain so that not only can common items be replaced at very short notice, but the firm can be pretty certain it has paid the best available price.

**Overcoming legacy barriers**

The ability to leverage data more effectively to meet new client demands is a key aim of many digital transformation projects in FSIB firms, not least because of the challenges of providing services through flexible, responsive digital channels when relying on legacy platforms.

As Global Head of Tax Middle Office at Northern Trust, **Steven Quigley** is responsible for managing and improving the global custodian’s service provision to a diverse range of asset owners and managers. A key focus is that Northern Trust’s clients increasingly need data on assets under custody on an intra-day basis - a requirement that was not envisaged when the mainframes that store the data were implemented over 30 years ago. “We’re not a retail bank, but nevertheless many of our clients want data differently and more quickly - they want multiple valuation points throughout the day, rather than overnight,” says Quigley. Northern Trust is exploring blockchain as a means of securely sharing the data with clients in near real-time, but in the interim Quigley’s team is leveraging existing ‘best-of-breed’ middleware applications to extract and push the required data to clients via their preferred channel, increasingly deploying data visualisation techniques to ease consumption.

“We have to use multi-channel delivery of information because that’s what the clients want.”

Steven Quigley, Northern Trust

“Mainly, clients just want information displayed in a manner that they can consume easily, with more sophisticated customers wanting to manipulate the data within their own systems. We have to use multi-channel delivery of information because that’s what the clients want,” he explains.

Like many institutions, Northern Trust is balancing the ongoing development of the service layer, with the process of maintaining and gradually decommissioning legacy applications, while also investing in the future. “We’re really focusing on what we have to do now, just to support the transitioning into a digital platform for our clients. At the same time, we realise blockchain could have a considerable impact of multi-channel delivery because it can empower everybody along the process chain,” adds Quigley.

**Building a flexible future**

A key element of successful business change optimisation is to ensure the organisation is on the right footing to implement new initiatives effectively, including the ability to adjust quickly if necessary to achieve intended objectives. Much of this capability depends on talent management and staff engagement as well as the flexibility of the firm’s underlying infrastructure and supply chain.

Once strategic priorities have been set at the most senior level within the organisation, mobilisation and engagement of staff at other levels becomes critical, says Morecroft at Digital Works Group, who emphasises the continual nature of change in an increasingly digital economy.
“A common reason for failure of business change is that firms don’t maintain momentum. They see change as being a phase, after which things go back to normal. Digital transformation doesn’t work like that,” he asserts. “It’s a process of continuous improvement, which means you need to get people comfortable with perpetual change.”

Morecroft characterises the primary role of a digital transformation project, or any similarly complex change programme, as measuring and directing change, with staff - from the c-suite down - ultimately responsible for implementing continuous change day to day and in the longer term.

“A common reason for failure of business change is that firms don’t maintain momentum.”

Richard Morecroft, Digital Works Group

“First, a clear strategic vision has to be shared across the organisation, which allows staff time to adjust and buy in; second, employees have to be able to get involved. Successful transformation programmes are a balance between top-level sponsored change and employee engagement that empowers staff to deliver that change,” he says.

Inevitably, change will take place at differing rates of speed and intensity at different levels within a large organisation, with pioneering “pockets of innovation” being tied to a broader programme. In addition, Aviva’s Hessing says projects that drive transformation must be led and staffed by high-quality individuals.

“Sometimes people haven’t moved onto projects because they or their managers fear they may never come back. But if we’ve got big outcomes to achieve we should focus the best talent on it and reward them accordingly,” he says. “When someone pitches to sponsor a new project, the first thing I ask them is: ‘Who is the most senior person dedicated to delivering the outcomes from this programme?’”

External expertise

But for an FSIB firm to achieve the level of flexibility required to adopt and implement a digital transformation strategy that is responsive to customer needs, not only its staff but also its underlying operating infrastructure and supply chain must be calibrated to deliver change on a rapid and continuous basis. “Firms may find that they need to overhaul their data management capability at the back-end in order to implement a new e-commerce solution at the front end, perhaps implementing interim architectures to reach the end-goal,” observes Certeco’s O’Hara.

A digital transformation plan may present an opportunity to revamp one’s supply chain, and indeed re-evaluate one’s own position in customers’ supply chains if operating in the B2B space. This might involve more collaborative approaches with partners than might have previously been adopted within a sector historically renowned for its preference for propriety solutions.

As Northern Trust’s Quigley observes, financial institutions are increasingly open to collaborative solutions, for example as they look to handle new compliance requirements at a time of limited revenue growth. But there is also scope to work with partners differently as FSIB firms’ reappraise the channels they use to manufacture and distribute their products and services to customers, especially when one considers the expertise afforded from the experiences of other sectors.

“Incumbents can accelerate their digital transformation programmes by collaborating with ‘fintech’ or ‘insurtech’ firms, both in terms of developing new technologies and designing new service propositions and customer journeys,” adds O’Hara.

Whether working with fintechs or not, large FSIB firms engaged in digital transformation projects are adopted similar methods to ensure swift and effective change. Aviva is one of many firms embracing agile management techniques, according to Hessing, pointing to the firm’s efforts to accelerate product development processes.
“Once we’ve built something, we’re constantly rolling out [drops] and testing. One recent business line recently collapsed a fortnightly process of releasing code into an hour; that’s quite leading edge when you’ve got 30 years of legacy systems to deal with,” he says. “Unless we’re launching a new system or proposition or going into a brand new market, we are trying to do more piloting, more agile development, trial and learn fast.”

Clearly there is no one blueprint for FSIB firms looking to leverage digital channels to deliver more value to customers; each will have to arrive at its own decisions on which channels and technologies will best serve customer needs and strategic objectives. And while embracing the opportunities afforded by digital transformation might be more complex in the FSIB sector than elsewhere, firms at least have the chance to learn from other industries.

As O’Hara observes, “It’s very hard to turn a ship round quickly. It does take time to adapt to digital transformation-type change, but it all really starts from an understanding of your strategic aims and business capabilities required to support these aims.”

Writing and additional research by Chris Hall, Associate Editor, The Realization Group

For more information on the companies mentioned in this article, visit:

www.aviva.co.uk
www.certeco.co.uk
www.digitalworksgroup.com
www.northerntrust.com
Financial Markets Insights from The Realization Group, is a series of interviews with thought leaders in financial and capital markets. The purpose of the series is to provide exclusive insights into industry developments, through in-depth conversations with C-level executives and key experts from banks, exchanges, vendors and other firms within the financial markets ecosystem. For more information, please visit www.financialmarketsinsights.com

Other topics in the series:
A qualitative approach to Best Execution DOWNLOAD
Under surveillance -
Getting to grips with the new Market Abuse Regulation DOWNLOAD
Agility in Clearing DOWNLOAD
Voice collaboration - what is the future in Financial Services? DOWNLOAD
The Voice of the Future? Flexible trading, lower cost, more value.
New initiatives in compliance technology DOWNLOAD
Financial Applications Hub - A high-performance app store for markets DOWNLOAD
Digital transformation - when business & technology go hand in hand DOWNLOAD
Are your mobile apps up to the test? DOWNLOAD

The Realization Group is a full service marketing and business development services company specialising in the capital markets. Our team contains industry practitioners from both the trading and post trade disciplines and we have expertise equally in the on-exchange and OTC trading environments. We apply our comprehensive set of marketing programs and wide-ranging media and business networks to complement the business development requirements of our client organisations.

www.TheRealizationGroup.com