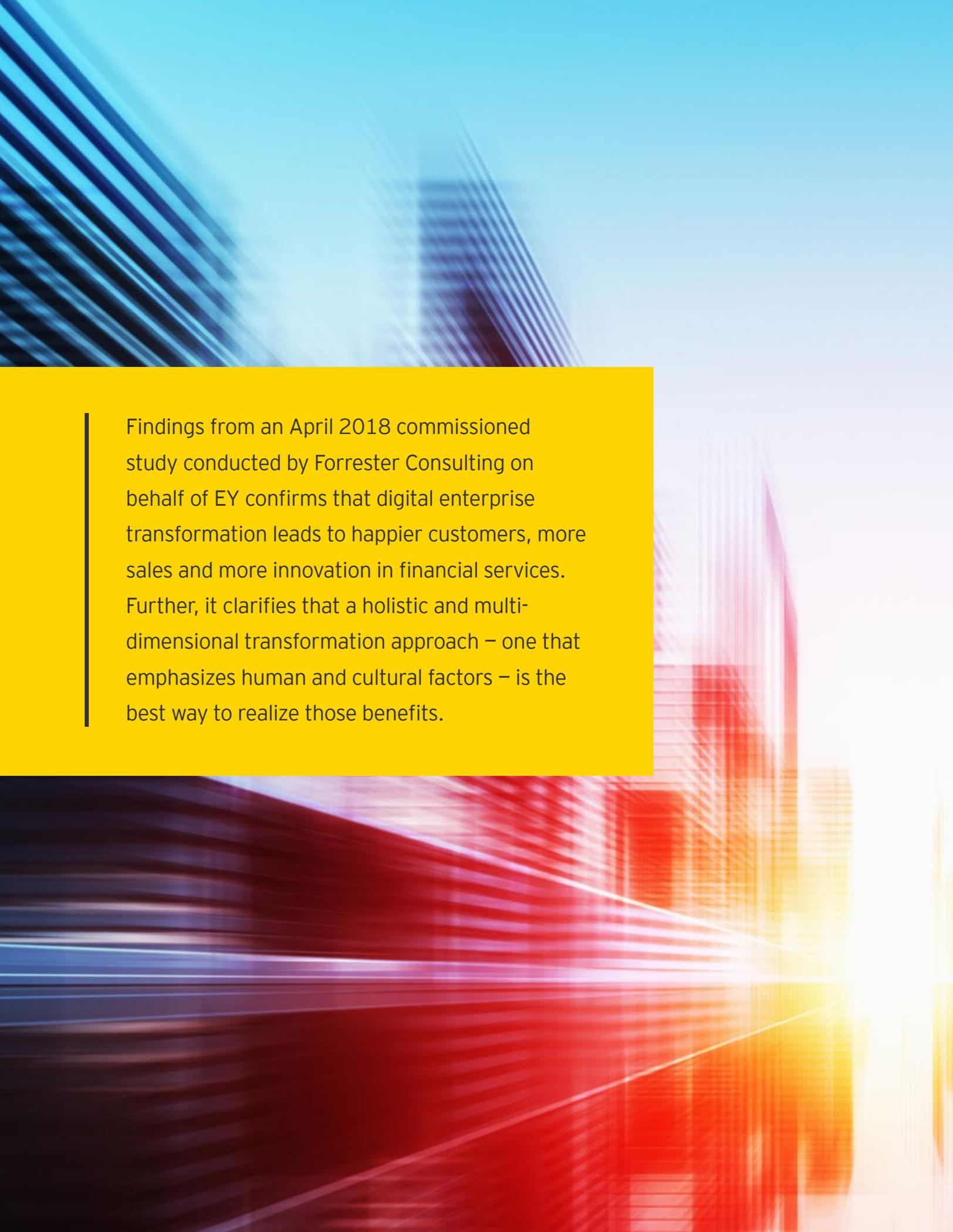


Digital enterprise transformation: winning themes of financial services leaders

A commissioned study conducted by
Forrester Consulting on behalf of EY,
April 2018



Findings from an April 2018 commissioned study conducted by Forrester Consulting on behalf of EY confirms that digital enterprise transformation leads to happier customers, more sales and more innovation in financial services. Further, it clarifies that a holistic and multi-dimensional transformation approach – one that emphasizes human and cultural factors – is the best way to realize those benefits.

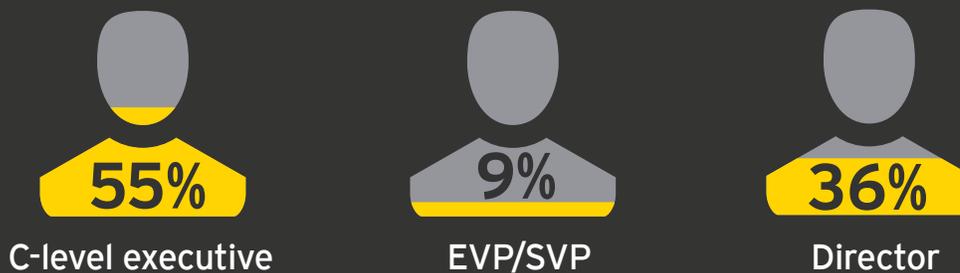
Table of contents

About the survey	3
Methodology: The digital enterprise transformation maturity model	4
Digital enterprise transformation in financial services: Systemic approaches win	5
Key findings:	
Leaders vs. laggards	7
The importance of organizational factors.....	13
Innovation and technology	19
Lack of leadership alignment	21
Looking forward.....	23
Sub-sector views	25
Banking	31
Insurance.....	33
Wealth and asset managers	35
Recommended actions.....	36
A final word.....	38
Contacts	39
Further reading	40

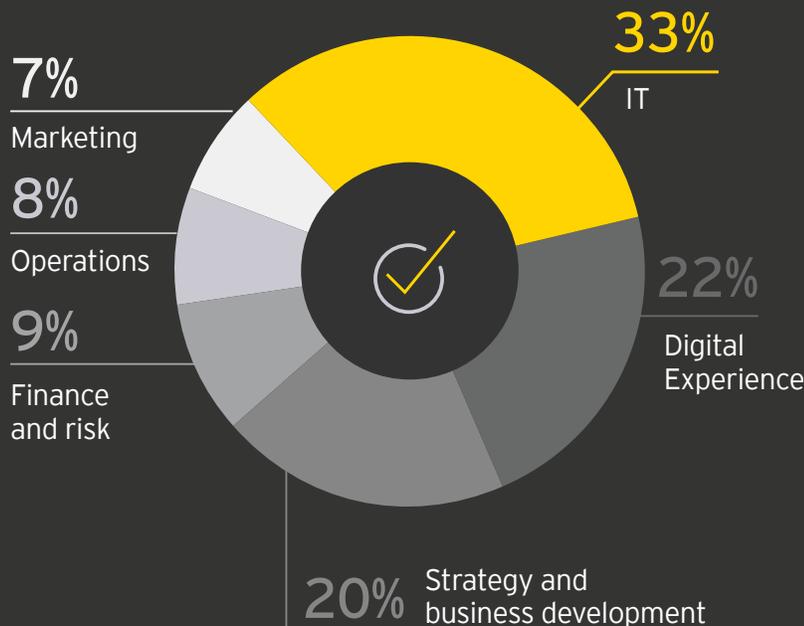
About the survey

The commissioned study conducted by Forrester Consulting on behalf of EY was completed in April 2018. The research consisted of online surveys with 240 senior-level executives (more than half of whom hold C-level positions) and additional phone interviews with select participants. Respondents represent financial services organizations - including banks, insurers, wealth and asset managers, and private equity and capital markets firms - based in the US and Canada with operations around the globe. (Private equity and capital markets firms are grouped with wealth and asset managers, and referred to as such, throughout this report.)

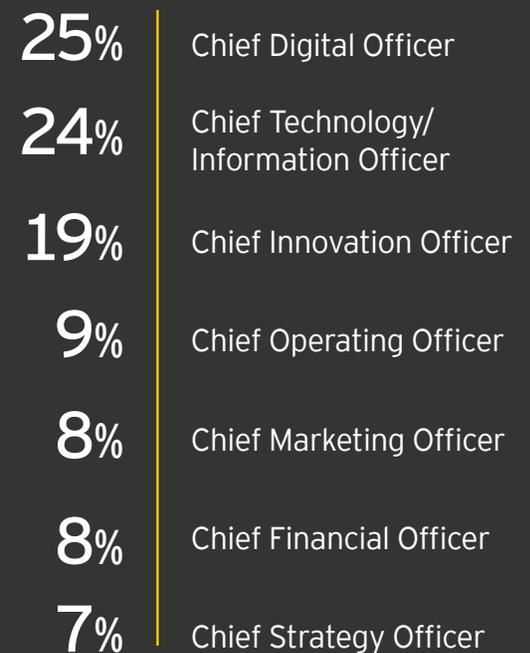
Position:



Department:



Offices to which respondents belong or report:



Note: Due to rounding, totals may not equal 100.
 Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Sectors:



33% Banking



33% Insurance



33% Wealth and asset management

Methodology: The digital enterprise transformation maturity model

The study evaluated respondents on 27 measures of digital enterprise transformation maturity. Survey respondents were prompted to place themselves on a five-point scale for each maturity measure across five categories:

- ▶ Strategy
- ▶ Structure
- ▶ Culture
- ▶ Technology
- ▶ Security

The overall maturity score was based on an aggregate score across these 27 measures. Respondents were then placed within one of three maturity groups – low, medium or high – depending on where their score fell along the distribution curve. The maturity assessment is an accurate predictor of where the average firm stands in relation to digital transformation excellence.

High-maturity firms, referenced as digital transformation leaders throughout this report, are those with advanced capabilities, strong track records and robust metrics in the areas listed above. They are also notable for focusing transformation efforts and investments on innovation and customer needs.

A middle cohort, referred to as mid-maturity firms, straddles the line between conventional practices and digital excellence. However, a significant number of these firms are likely to emerge as future leaders as they advance along their digital transformation journeys.

Low-maturity firms, referred to as digital transformation laggards, are typically focused on – even obsessed with – cost reductions and other financial metrics.

Digital enterprise transformation in financial services: Systemic approaches win

A commissioned study conducted by Forrester Consulting in April 2018 on behalf of EY highlights the unique interconnectedness of digital enterprise transformation, innovation, business model evolution, customer expectations and other critical factors in banking, insurance and wealth and asset management. It also clarifies how the most digitally mature firms generate superior value from their transformation investments and efforts: they effectively balance a range of strategic objectives and take holistic action to fulfill them.

These insights apply to all shapes, sizes and scopes of digital transformations. Indeed, companies in financial services increasingly seek to rightsize their transformation programs through a series of manageable steps and coordinated initiatives. When it comes to succeeding in these endeavors, size matters less than how they are connected, managed and measured.

Digital transformation leaders embrace systemic change, especially in the realms of organizational structures, cultures and human talent. These dimensions are frequently overlooked or undervalued by less mature firms and those just commencing their transformation journeys. Leaders are also notably more focused on customer needs and new business models. Lastly, they measure success more holistically and in ways that go beyond purely financial metrics (such as cost reduction).

What leaders do differently

The survey results confirm meaningful differences between the approach of digital transformation leaders and laggards. High-maturity digital

transformation leaders think, organize and act differently and more holistically in the following areas:

- ▶ **Strategy:** Create holistic digital strategies that embrace continual improvement centering on customer outcomes rather than just departmental success
- ▶ **Structure:** Organize around cross-functional, customer-centric structures
- ▶ **Culture:** Socialize their digital, customer-obsessed values to create a culture that prioritizes and rewards outside-in perspectives, while nurturing digital skills that enable innovation
- ▶ **Technology:** Utilize modern software design, development, deployments, and delivery models to automate processes and legacy systems, drive speed and agility, and eliminate redundancies
- ▶ **Security:** Build customer trust through accountability, transparency and security, while maintaining excellent customer experiences

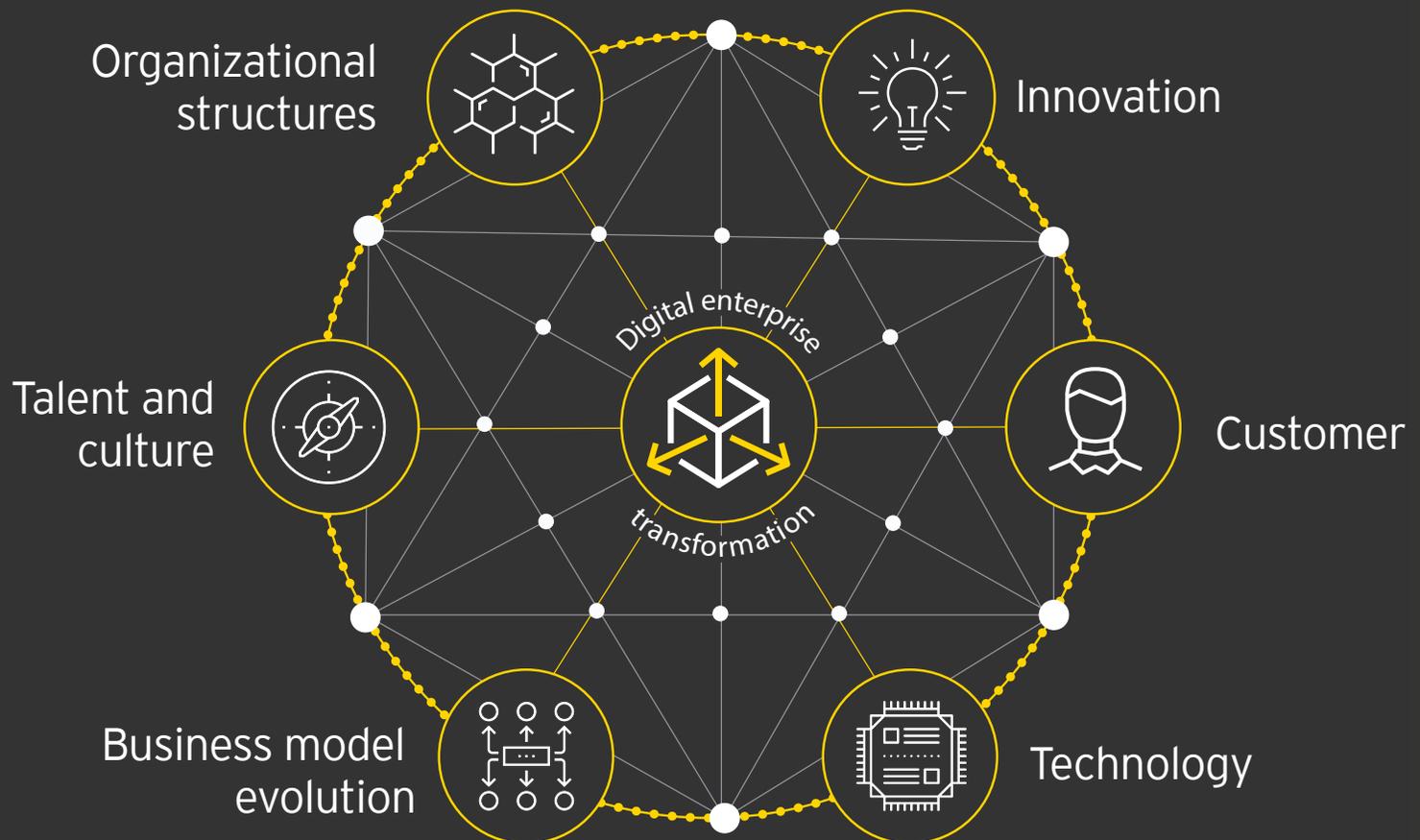
Digital transformation and innovation are deeply interwoven at the most advanced digital organizations. In some cases, strong innovation teams drive transformation. In others, successful transformation leads to increased innovation – both in terms of outputs (like new products or business models) and organizational capabilities (increased agility and process resiliency).

A focus on innovation is common among firms at all maturity levels. Similarly, they are looking to enabling technology and increased automation as a foundation of transformation programs. But broad-based and multi-dimensional change, which highlights organizational and human factors, is a critical differentiator between leaders and laggards.

The right strategies, structures and cultures are closely correlated with the most digitally advanced companies. As a result, digital leaders enjoy a broader range of benefits (especially around customer satisfaction, profitability and greater adaptability to emerging threats), than laggards, who are more narrowly focused on cost.

The study's bottom line: the more diverse and linked the digital transformation strategy and the more holistic the approach, the bigger the payoff is likely to be. Indeed, digitally mature firms see most significant impact against the most important KPIs, such as customer satisfaction, increased revenue and more innovation. Through digital enterprise transformation, it seems that banks, insurers and wealth and asset managers can satisfy more customers, generate more sales and make innovation a "way of life."

Leaders take a holistic, systemic approach to digital transformation that reflects the deep and inextricable links between critical aspects of the business and continuously changing market dynamics.



Key findings: Leaders vs. laggards

Digital leaders view transformation more holistically and measure success differently than other firms – an approach that is critical to generating superior outcomes and unlocking the benefits.

There is a clear performance gap between those companies that conduct limited, discrete transformation programs (e.g., focusing narrowly on financial metrics, such as cost reduction) when compared to those that take a more comprehensive and customer-centric approach. Prioritizing customer needs when designing strategies and reorganizing around customer outcomes are critical to transformation success and, ultimately, digital maturity.

Specifically, digital leaders focus on innovation and customers as much as revenue increases, while lagging firms are more focused on cost reductions. See *figure 1* While lower costs are important, they fall short as a top objective or primary purpose for digital enterprise transformation efforts.

Measuring success and tracking the impact

Measures of transformation success also set leaders apart from laggards. There is a direct linkage and correlation between objectives, metrics and impacts experienced by leaders. For instance, customer satisfaction is the top priority and has the most significant positive impact for digital transformation leaders, as measured by the KPIs they track. In fact, leaders see nearly twice the impact as their lagging peers in this area, though firms at all maturity levels track customer satisfaction. See *figures 2 and 3*

Respondent insights:

“Ultimately, digital transformation is going to make our customers lives’ better, and make it easier for them to do business with us.” *Chief operations and technology officer, large US bank*

“The customer is the main driver. It’s all customer driven.” *Chief information architect, US multinational financial services company*

Customer vs. cost-related focus illustrates a massive gap in the approach of leaders and laggards

Figure 1

What are the key goals of your digital enterprise transformation?

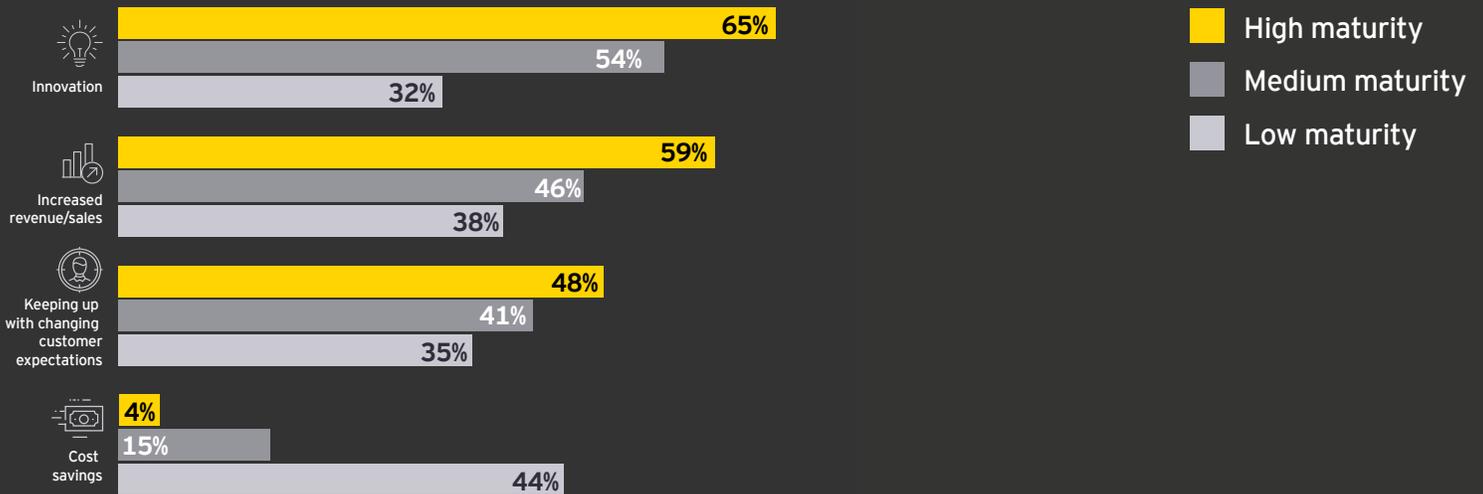


Figure 2

What key performance indicators (KPIs) are you tracking to ensure you reach those digital enterprise transformation goals?

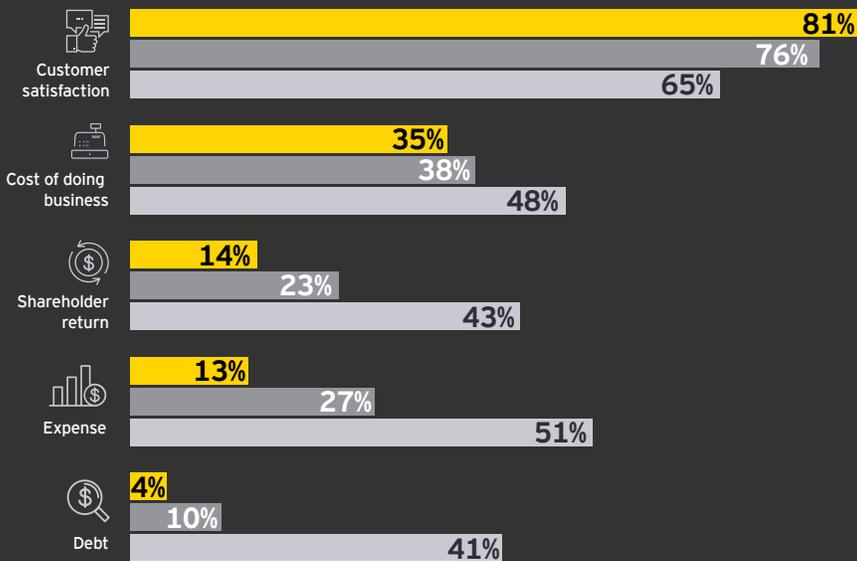


Figure 3

Of the KPIs that you are tracking, what impact have you seen from your digital transformation efforts?



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Leaders vs. laggards

Realizing the value

The study asked respondents to identify various business benefits their firms have derived from their digital enterprise transformations, including:

- ▶ Increased revenue
- ▶ Better customer experiences
- ▶ More innovation
- ▶ Faster speed to market
- ▶ Increased customer retention/acquisition
- ▶ Easier to keep up with/overtake competitors
- ▶ Improved brand perception
- ▶ Cost savings

Other questions assessed the impact of transformation on:

- ▶ Related key performance indicators (KPIs), such as customer satisfaction, profitability and new business/sales
- ▶ Preparing the organization to deal with various threats, such as technology advancements/connectivity, cyberthreats, business models becoming obsolete, shrinking talent pools and disruptive entrants in the market

The collective answers to these questions define the outcomes and results for digital enterprise transformation for banks, insurers and wealth and asset managers.

Respondent insights:

“The main charge is to overhaul our member experience. The first initiative is to have a best-in-class experience. It’s not just about turning a profit. It’s also about creating a long-term relationship and doing what’s best for the member first.” *Director of digital banking, US credit union*

“If we don’t do this both our customer acquisition and our customer retention will suffer, and I think that is probably the biggest risk to any financial services company.”
Chief operations and technology officer, large US bank

The innovation advantage for leaders

Looking at outcomes from transformation programs, increased innovation is another area where leaders enjoy an edge. Innovation cannot be separated from digital enterprise transformation; firms that are able to effectively manage a portfolio of innovations are more successful at implementing transformation, while those firms that experience successful transformation realize more innovative results. This close relationship reinforces the broad industry consensus that both are imperative. *See figure 4*

Similarly, leaders are vastly more prepared to deal with competitive threats represented by new technology, cyberthreats and the potential obsolescence of their business models. *See figure 5* Given the amount of change and turbulence in banking, insurance and wealth and asset management, managing these risks is a top agenda item for senior executives.

However, it is important to note that few respondents view themselves as prepared for disruptive entrants into the marketplace. A case can be made that the emergence of new and non-traditional players could raise the threat level in a few of the areas where respondents feel prepared, such as access to talent, new technology and business model obsolescence.

Figure 4

Have you experienced more innovation from digital transformation at your firm?

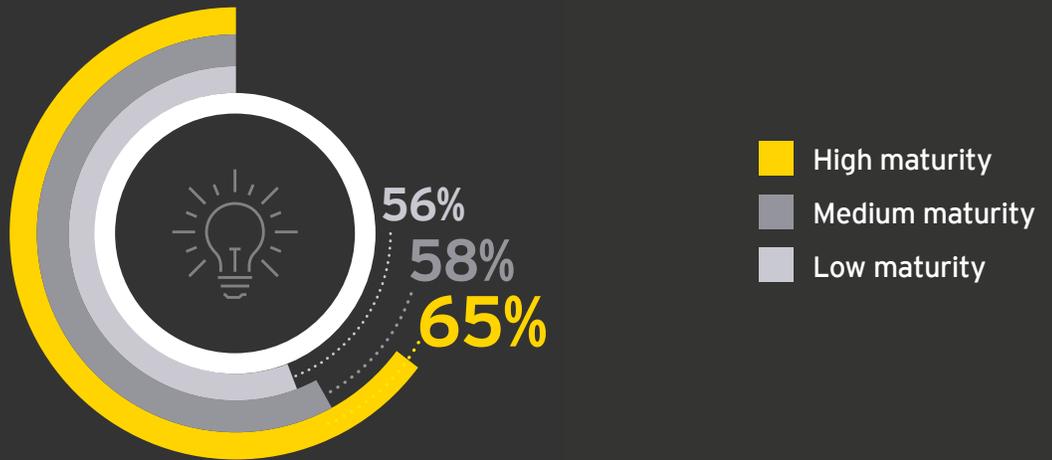
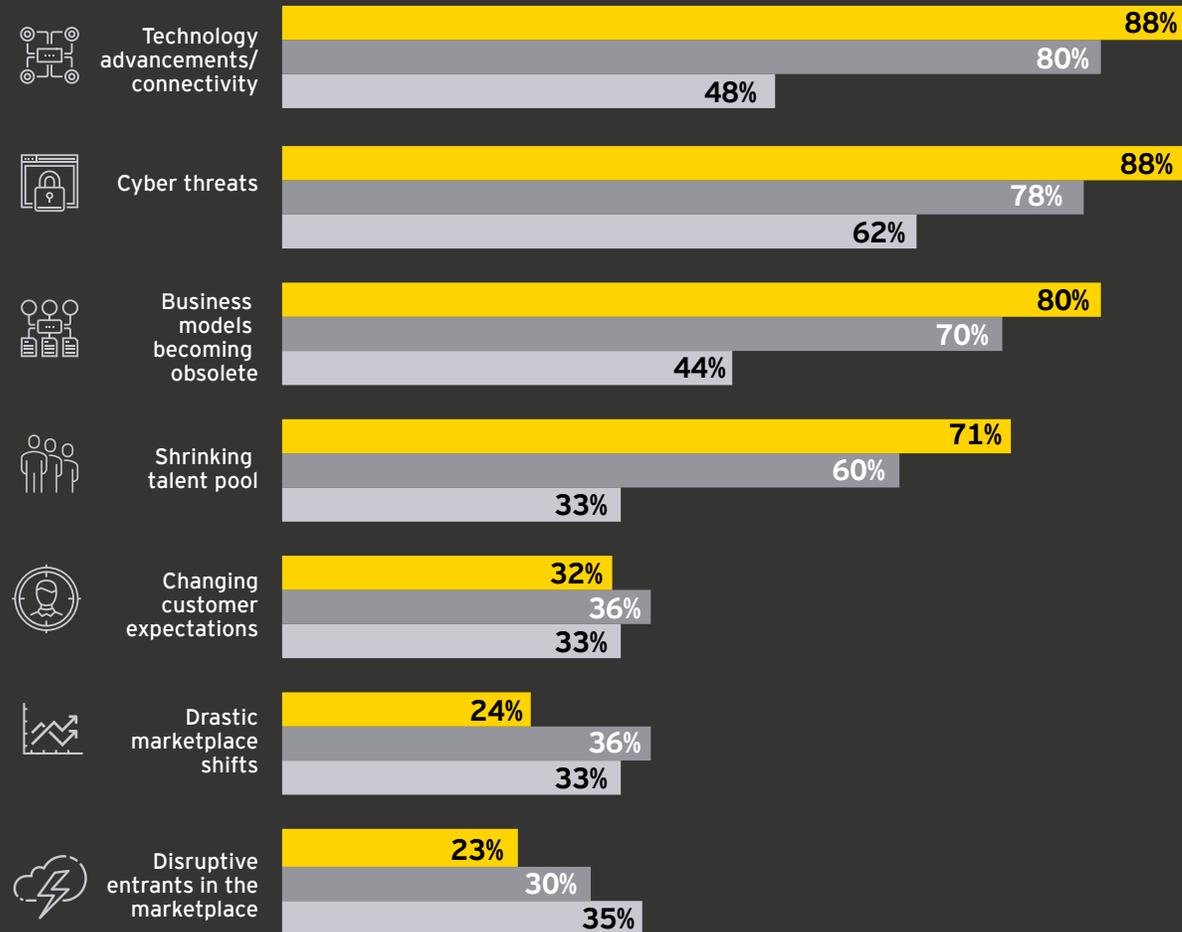


Figure 5

As a result of your digital transformation efforts, how prepared is your firm to deal with the following threats? (fully prepared)



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Leaders vs. laggards

A clear value proposition, despite the hype

The phrase “digital enterprise transformation” may raise the eyebrows of senior business and technology leaders who have grown skeptical of hype cycles around hot new technologies or terminology. Our research, however, confirms that it delivers value in areas that matter most to banks, insurers and wealth and asset managers. *See figure 6*

In short, digital transformation leads to happier customers, more sales and more innovation, which every firm in the industry is undoubtedly seeking. Further, the urgency regarding digital transformation was reflected in many respondent comments.

Attention should be paid to the significant number of respondents that are seeing little or no value and, conversely, to the potential value they are leaving on the table. The question is, how will these companies – particularly mid-maturity firms with aspirations to improve – seize the opportunity? Leaders make clear what is possible with the right objectives, strategies and approach to digital enterprise transformation. Mid-maturity firms may have the clearest and most compelling near-term upside.

Respondent insights:

“The whole purpose of digitization is to stay relevant and compete with the digitally-led fintechs or technology companies that are disrupting financial services.”

Chief operations and technology officer, large US bank

“Do digital transformation or don't survive. You either master digital transformation or you'll be left on the heap pile.” *VP IT Operations, large US insurance group*

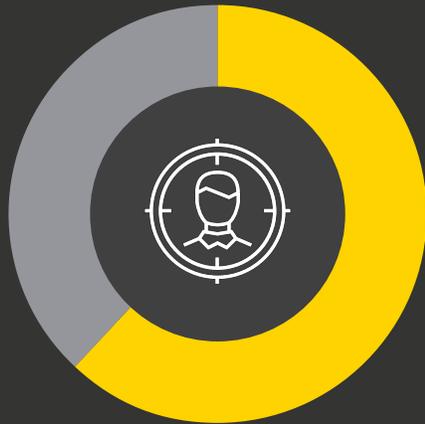
“As things go digital, if you don't stay in pace, you run the risk of being disrupted and you're actually going to lose customers.” *Chief operations and technology officer, large US bank*

Figure 6
What business benefits have you experienced from digital transformation at your firm?
 (Top three answers)

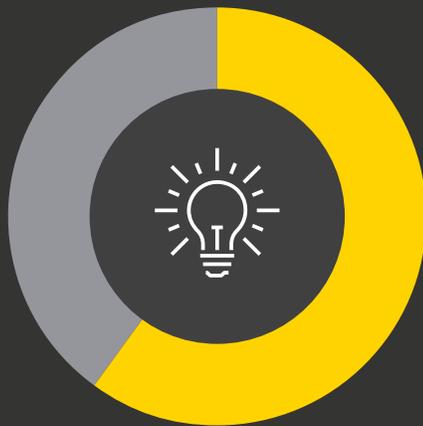
■ Firms experiencing the benefits
 ■ Firms NOT experiencing the benefits



63% | Increased revenue



62% | Better customer experiences



60% | More innovation

Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Key findings:

The importance of organizational factors

How they approach digital enterprise transformation accounts for the gap between high-maturity digital leaders and low-maturity digital laggards.

As with the right strategies and focus areas, leaders that orient around systemic change, rather than narrowly defined and targeted enhancements, generate a broader range of richer benefits. Such systemic change requires equipping employees with the right tools, facilitating collaboration, and balancing internal and external talent to accelerate innovation.

The implication is that investments in tools and technology investments pay off fully only if the right teams and talent work together in the right ways. In other words, innovation is very much a team sport – and a cross-functional one at that. Survey results suggest that the industry believes itself to be quite far along in managing internal and external talent, promoting entrepreneurial risk-taking and advancing design thinking, Agile development and related disciplines. These are likely to remain ongoing challenges and areas that must be mastered by firms seeking to achieve and maintain high levels of digital maturity.

For companies to “be digital,” people and teams across the organization – from sales and distribution, to accounting and finance, to underwriting and claims – must change the way they think and act. Again, digital is a cultural attribute that must be actively instilled. The survey results are good news

in that people-related issues are very much on respondents’ radars. However, the workforce of the future remains a work in progress.

Further evidence of the organizational and cultural dimensions of digital transformation can be seen in the use of “defined, repeatable and scalable innovation processes” at the most innovative firms. Such organizations have embedded innovation into their operational fabrics. *See figure 7*

Building and coordinating teams

Notably, leaders are more likely to use a “federated” approach to connect and drive collaboration across innovation teams throughout the organization. This finding suggests that the most impactful innovations come from efforts that are more fully “operationalized” across the organization. Fostering and promoting innovation are the federated team’s full-time job, though many other teams are involved in innovation. *See figure 8*

Respondent insights:

“The innovation teams are embedded in each of the major functions, the development, delivery and customer experience teams, and into the business.” *IT operations VP, large US insurance group*

“With innovation, we’re tracking more to the outcomes. Like each year you actually have specific number of new products. It could be a new solution that you’re offering and things like that, so we track those, and we have milestones.” *Chief operations and technology officer, large US bank*

Figure 7

How would you assess your innovation success and maturity?

- High maturity
- Medium maturity
- Low maturity

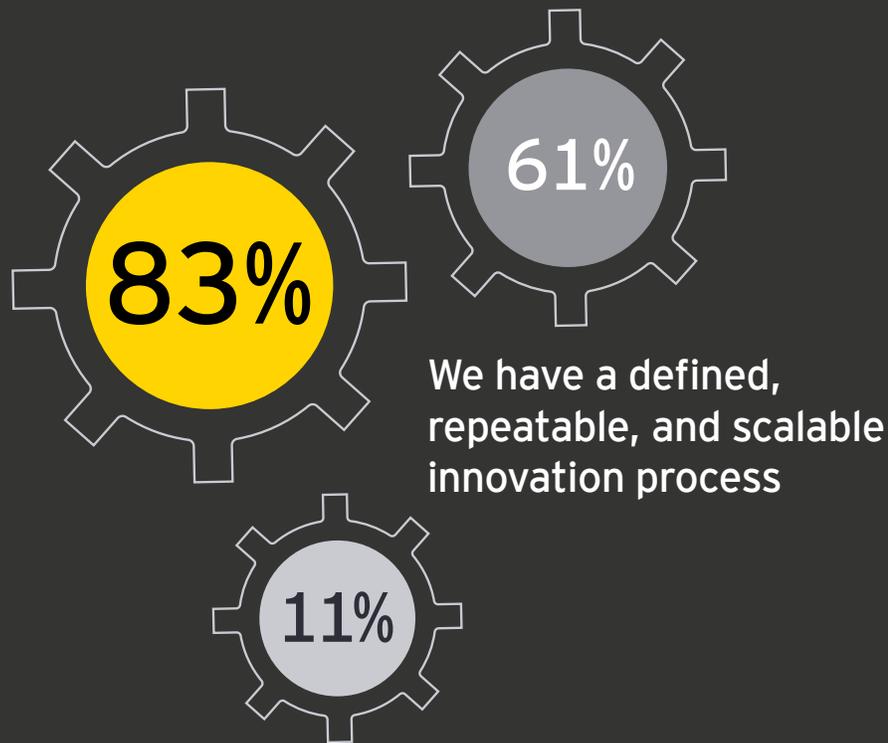
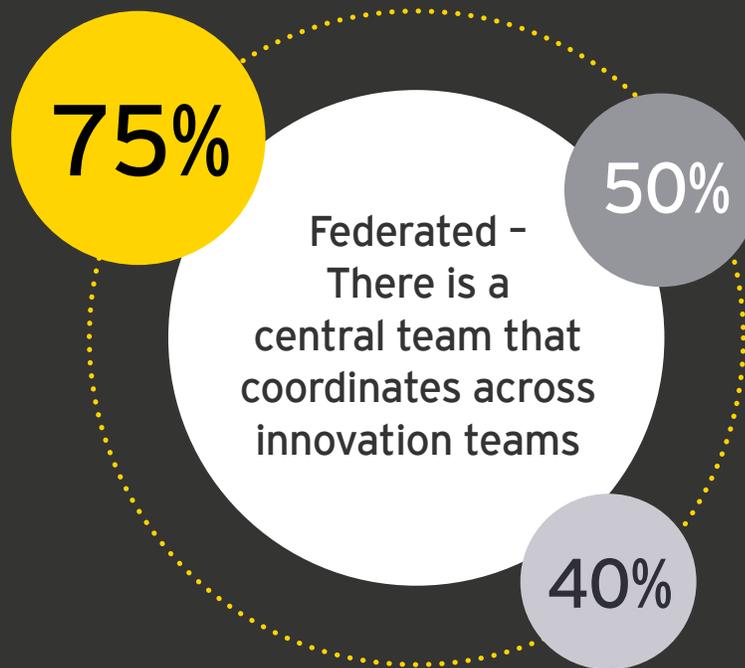


Figure 8

How is innovation structured at your organization?



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
Not all responses shown

Key findings:

The importance of organizational factors

It's clear why leaders see the most benefit from federated models, which represent an effective balance. Decentralized teams offer too little command and control; if innovation is thought to be everyone's job, it often turns out to be nobody's job. An excessively centralized model, however, can limit ownership or input across business units or operational groups, and restrict the scale and impacts of innovation programs.

Federated models help balance the need for coordination and guidance from the top corporate levels with integration into the business and operational units. It places decision-making authority and benefit realization at the right place in the organization. Support and guidance is provided with a lighter touch than with hierarchical models, but in ways that still drive efficiencies. That innovation and transformation are owned mostly by the people they impact and benefit from day to day helps boost accountability and accurate tracking of performance.

One respondent comment was particularly revealing in showing the need for boldness, unconventional thinking and a cross-functional integration: "I hijacked the innovation team [to facilitate] digital transformation. It enabled rapid business process development supported by technology. That group

was key to changing the organization because it combined high-potential people out of the business side with IT." To do transformation well, leaders and teams must be strategically aligned, culturally compatible and committed to collaboration.

Senior leadership strengthens innovation cultures

Digital transformation leaders value measurement and C-level buy-in when attempting to innovate. Their innovation programs are led by senior executives with real accountability and backed by budget-making authority. They are purposeful and holistic about measuring innovation, assigning accountability for it and formalizing programs when partners and vendors and/or FinTechs and startups are involved, as they commonly are.

Again, for digital transformation leaders, innovation is guided from the top levels of the organization and deeply ingrained throughout and across the organization. Plus, leaders are thoughtful about how they engage external partners to enable faster and easier innovation. See figures 9 and 10

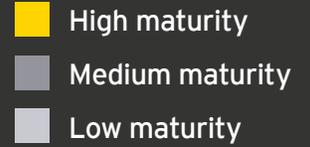
Respondent insights:

"I hijacked the innovation team [to facilitate] digital transformation. It enabled rapid business process development supported by technology. That group was key to changing the organization because it combined high-potential people out of the business side with IT."

Chief technology officer, large US lending company

Figure 9

What specific actions have you taken to accomplish this innovation at your firm?



Identifying and implementing a means to measure the value of innovation

Identifying executive authority with accountability and budget to create and manage innovation



Figure 10

What specific changes and improvements has your organization made to enable faster and easier innovation with external vendors/startups?



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Key findings:

The importance of organizational factors

This may sound simple, like a matter of simply identifying the right candidate to be a flag-waving innovation leader or putting a new title or position on the org chart. The truth is that carefully and deliberately shaping a culture of innovation is extremely hard work requiring leadership skills of the highest order. Embedding new ways of thinking, working and measuring success into large enterprises is a long game, one that banks, insurers and wealth and asset managers will be playing for years – even generations – to come.

Similarly, measuring innovation can be very challenging. The difficulty lies in the fact that much innovation occurs from technology or platforms hidden in the middle and back offices. In many cases, a single innovation (e.g., process automation or a new tool) serves multiple parts of the enterprise.

Thus, the value must be traced across multiple transactions and channels, sales cycles, various service interactions and the like. Many large companies have organizational silos that complicate the simplest of measures, like allocated costs, when multiple groups or units are involved; factor in the more complex metrics (customer satisfaction, profitability, etc.) and the leaders' ability to trace the benefits of their innovation investments and activities becomes even more impressive.

Partner relationships also present a stark contrast between leaders and laggards. Leaders take a more strategic and forward-looking view. They appear to invest more time seeking partners capable of adding value in key areas and, it seems likely, evaluating partners in terms of cultural fit. Laggards' work on the onboarding process is yet another manifestation of their focus on cutting costs and suggests they seek commodity vendors with little vetting.

It is worth noting that high-maturity firms are not dedicating significantly more resources to innovation. Again, the implication is that it's how leaders approach innovation that sets them apart from laggards or the middle cohort. See *figure 11*

Overall, the middle cohort appears to be trying harder with and assigning more people to innovation than other firms. It may be that mid-maturity firms have not yet seen the fruits of their labors and will quickly advance along the maturity scale once the benefits appear. On the other hand, it's possible that they haven't yet found the right strategic direction or established the necessary cultures for innovation to take hold.

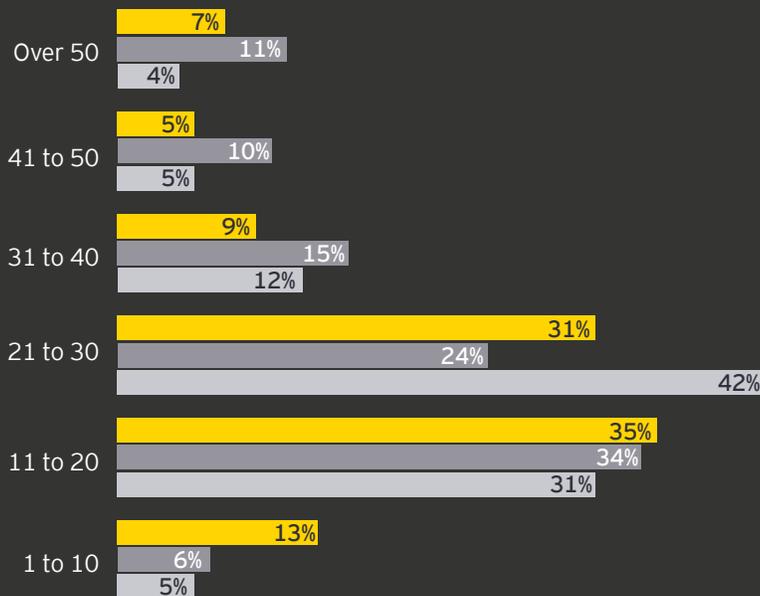
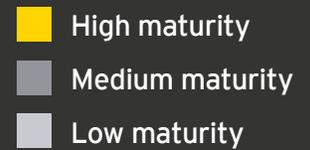
Respondent insights:

"So we're trying to look at a lean six sigma approach within this innovation lab, to actually test things, to determine what we need to do, to measure it, to improve and analyze it, and eventually control and then move it out to the organization." *Senior vice president, marketing, large Canadian financial services group*

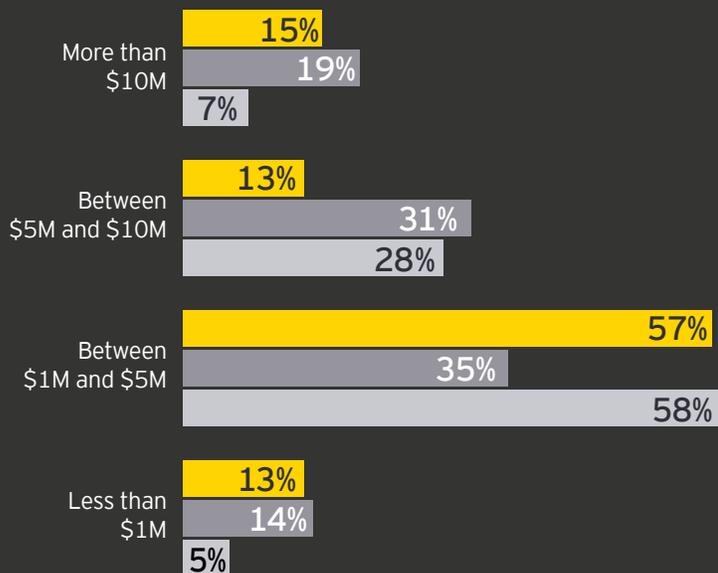
"Our innovation committee meets regularly to show where the organization should be headed. We want to pool the collective resources of our employee base. We don't want to take an ivory tower approach [to innovation]." *Director of digital banking, US credit union Senior vice president, marketing, large Canadian financial services group*

Figure 11

Approximately how many people are tasked with managing and implementing innovation at your firm?



Approximately how much funding is given to managing and implementing innovation at your firm?



Due to rounding, totals may not equal 100.

Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms

Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Key findings:

Innovation and technology

The survey results confirm that innovation the industry consensus on the innovation imperative: 87%, or virtually every firm, is investing in innovation as the top priority or a top three priority.

“Innovation is top on everyone’s mind,” said one respondent. “Especially right now, it’s the key.” It is worth pointing out that while nearly every bank, insurer and wealth and asset manager is “doing” innovation, some are doing it better than others. *See figure 12*

Similarly, emerging technologies, process automation and integrating core systems are all top priorities for the vast majority of firms in the industry – at least 80%. *See figure 13* Again, these elements function as a baseline or industry standard, supporting all of the related transformation efforts relative to the customer, innovation and competitive realms.

In this sense, technology has been largely commoditized. As one respondent said, “It’s about business change; it’s not about technology. If it’s viewed as a technology project, it’s going to fail. If it’s a business change project and it’s supported by technology, then you’ve got a fighting chance.” Survey results back up this perspective, which again highlights the need for consensus on the strategic objectives for transformation and the metrics necessary to trace the value. Alignment and collaboration among business, technology and functional leaders is one component of the linked and multi-dimensional approach to transformation that enables leaders to achieve greater benefits.

The stakes around new technology have changed. Firms that deploy new technologies now lose the competitive advantage from those deployments more quickly than before. It took a decade or so for cloud

computing and SaaS models to become industry standards. Apps and customer-facing platforms took only a few years. Thus, it’s fair to say that companies’ ability to generate more value from technology (whether through the use of Agile methodologies, effective sourcing models or the launch of entirely new business models) is as important as the technologies themselves.

How companies use technology also matters. The most sustainable returns and strongest differentiation are enjoyed by firms that deploy and integrate technology in particular ways, such as supporting digital marketing, social media and other aspects of the customer experience. Compare that to the cost-takeout focus at companies that simply want software to automate activities that are costly to conduct. Technology alone is a non-starter for digital maturity and successful transformation.

The legacy infrastructures and applications in place at many companies are, of course, a major barrier. That is why many incumbents, including centuries-old companies, have found it much easier and less costly to spin off or start a new company, or “NewCo.” A “greenfield” foundation based on the latest computing models and technologies is very appealing to boards and their C-level executives stuck between the rock of badly outdated legacy models and infrastructure and the hard place of the innovation imperative.

“Innovation is top on everyone’s mind. Especially right now, it’s the key.”

VP and information security officer, large US bank

Figure 12

What priority is your firm placing on innovation?

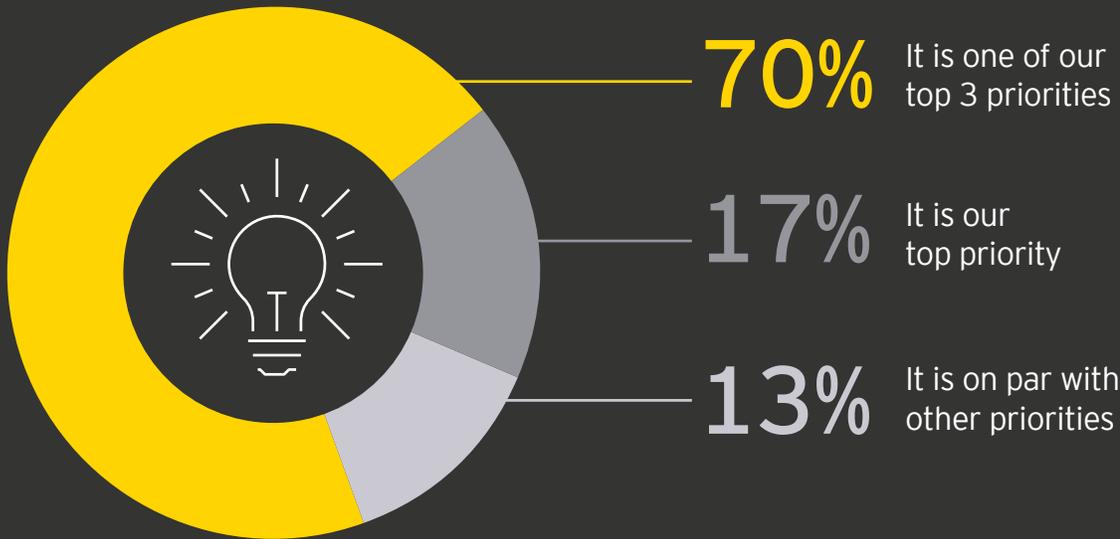
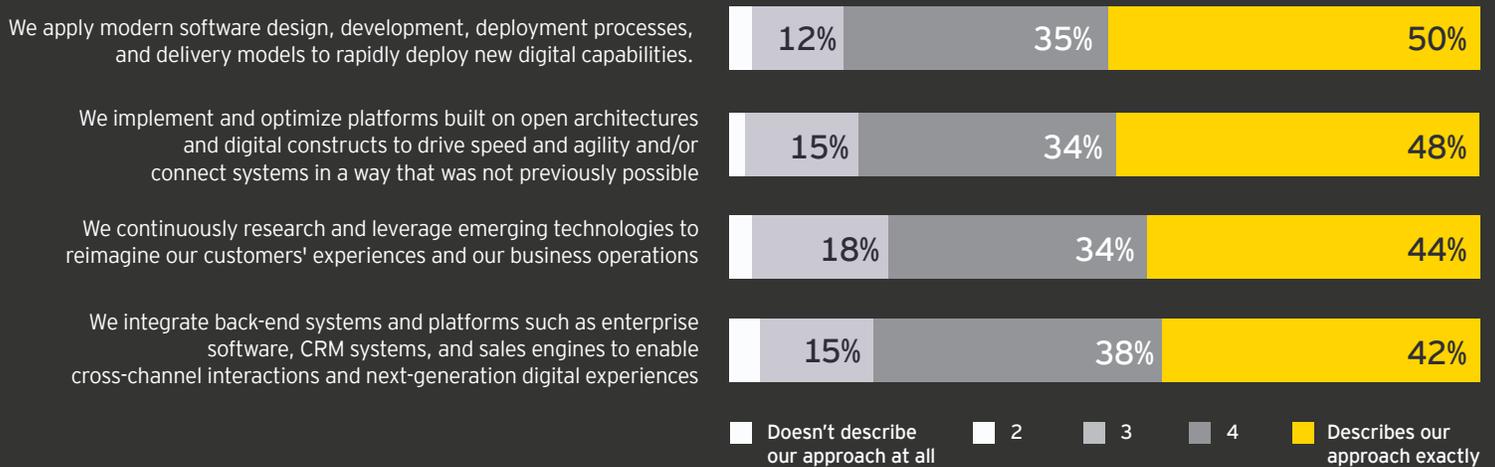


Figure 13

Please indicate the extent to which the following statements describe the ability of your firm’s technology to support a fully digitally enabled enterprise?



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Key findings:

Lack of leadership alignment

Interestingly, key leadership roles are not aligned on the goals and benefits of digital enterprise transformation. See *figure 14*. Specifically, chief digital officers and chief innovation officers are more closely aligned with each other than with chief technology officers.

On one level, this is not a surprising insight. Naturally, chief innovation officers are more focused on driving innovation and CTOs want to prepare the organization for new technologies. However, it suggests an opportunity to clarify strategic and tactical goals for digital enterprise transformation at the highest levels of the organization. A sense of shared purpose around goals is particularly important given the interconnected nature of digital enterprise transformation programs.

This lack of alignment should be viewed in terms of the federated innovation approach that is correlated to high-maturity digital firms. Federated models embed and integrate innovation into many areas of the organization (operations, IT, business units), with many people having a stake in the outcomes. That places a premium on a shared purpose relative to top objectives and target benefits. Thus, the lack

of alignment illustrates why so many companies struggle with transformation when technology is such a critical enabler. Senior leaders must work together to build consensus where it matters – especially relative to goals, target outcomes and metrics.

These functional perspectives may reflect a potentially damaging trend – the increasingly prevalent view of the CTO as a “cost of doing business” role. The shift in some areas of oversight, budget authority and functional skills away from CTOs toward other executives (e.g., chief marketing officers) offers further evidence. Yes, CMOs are typically closer to the customer agenda and should play an important role in shaping transformation programs and allocating investments. But, no, CTOs should not be marginalized, but, rather, must act in close consort with their peers.

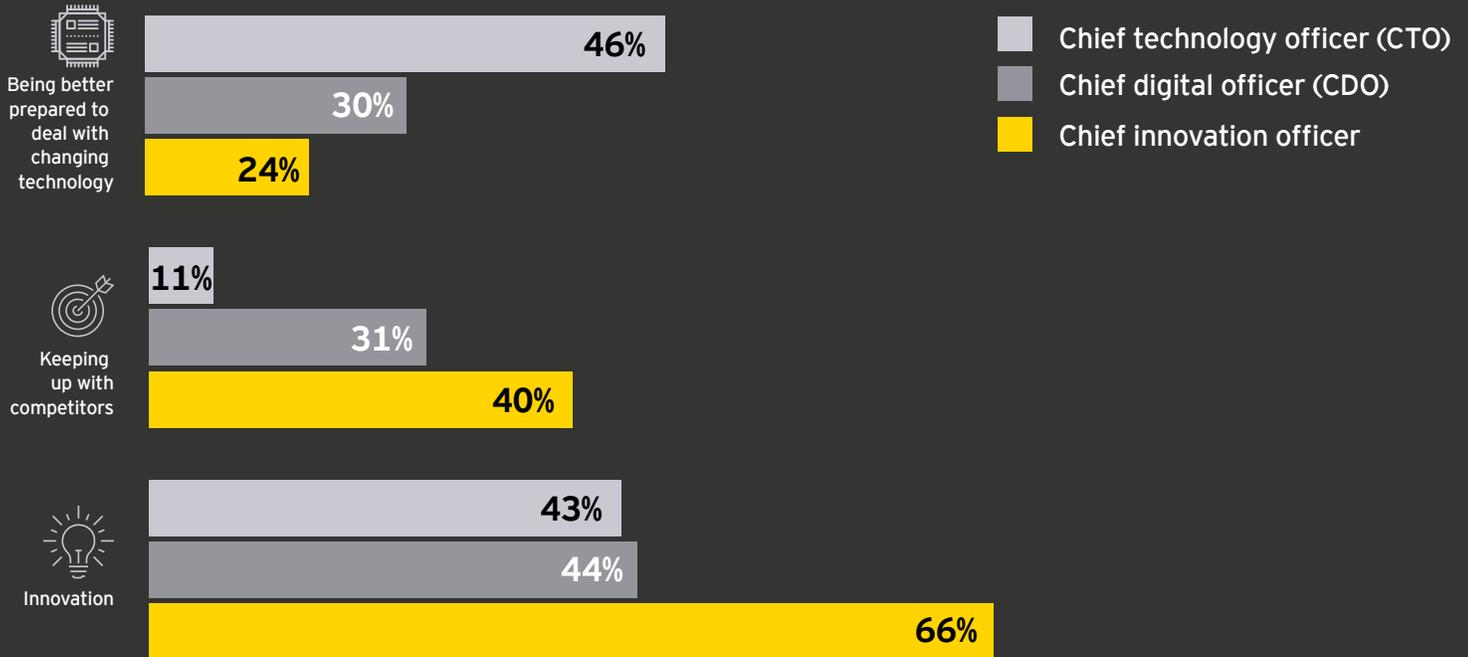
Respondent insights:

“Our goal is to serve our customers better. It just so happens that digital technology was the answer.”
Chief technology officer, US lending company

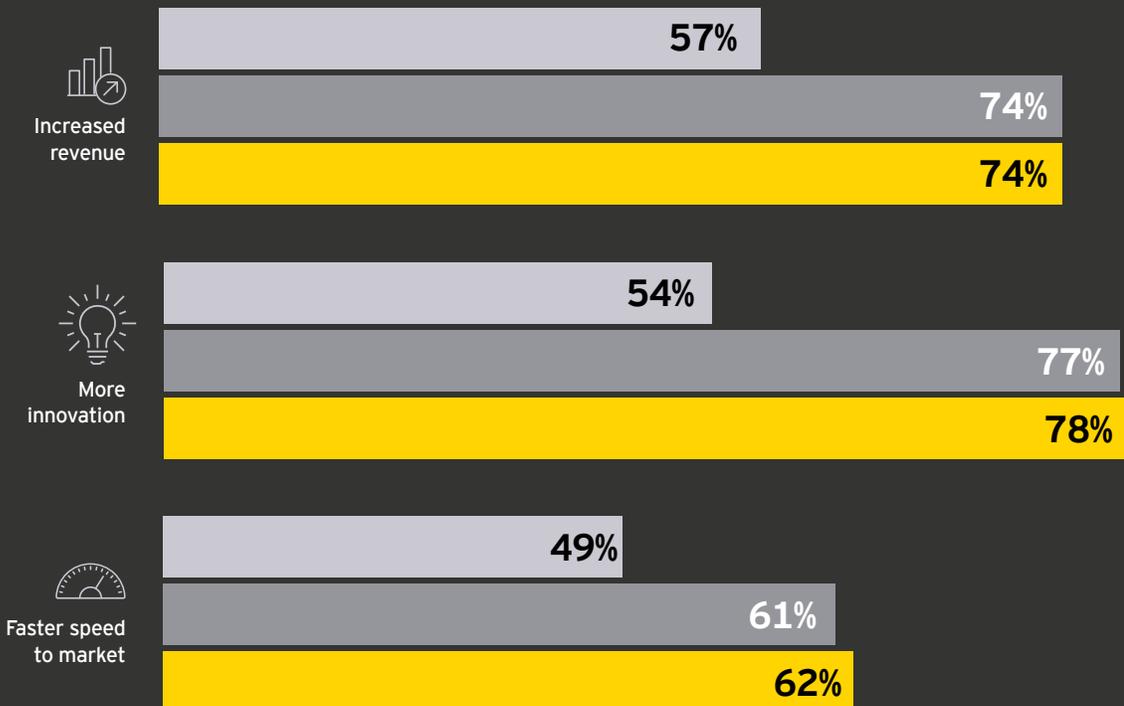
“The problem is you’re asking a business that’s 100 years old and has not had any real disruption until the last two years to completely transform the way it does business. That’s not something IT can lead for them. It’s got to be lead from the business side, in partnership.” *VP IT Operations, large US insurance group*

Figure 14

What are the key goals of your digital enterprise transformation?



What business benefits have you experienced from digital transformation at your firm?



Base: 190 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Key findings: Looking forward

Leaders shifting focus to customer, productivity and new ways of working

The survey examined recent and future focus areas for innovation, illustrating how priorities are likely to shift. *See figure 15* Compared to their top three areas of focus over the last 24 months, leaders will place greater emphasis on improving efficiency and productivity, improving the customer experience and implementing new ways of working. The implication is that leaders anticipate great progress in terms of deploying platform-based business models. Laggards will shift their focus to improving efficiency and productivity, creating new products and services and improving the customer experience.

The contrast between recent and future innovation priorities highlights both how far financial services firms have come and the continuous nature of the digital and innovation journeys. That platform-based business models are moving down the innovation agenda suggests that a considerable number of firms have made significant progress in this critical area. According to one respondent, "This 'platformification' is just a thing you do."

The differences in priorities suggest that maturity may be a matter of where companies are on their transformation journeys. The similarities in priorities represent evidence that mid-maturity firms are often emulating the past strategies and tactics of leaders. By continuing to focus on platform-based business models, an improved customer experience and increased efficiency and productivity, they are likely to generate more value over time and advance along the maturity curve. As they find their way forward, some of these mid-maturity firms will undoubtedly evolve into leaders.

No companies can ever de-emphasize customer experience and productivity and efficiency. These are metrics against which there is always room for improvement and at which all companies must excel. Operational excellence and customer satisfaction are games without end, which is why they will remain perennial focal points for transformation investments.

Figure 15

Primary areas of innovation (percentage ranked as top three priority)



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Sub-sector views

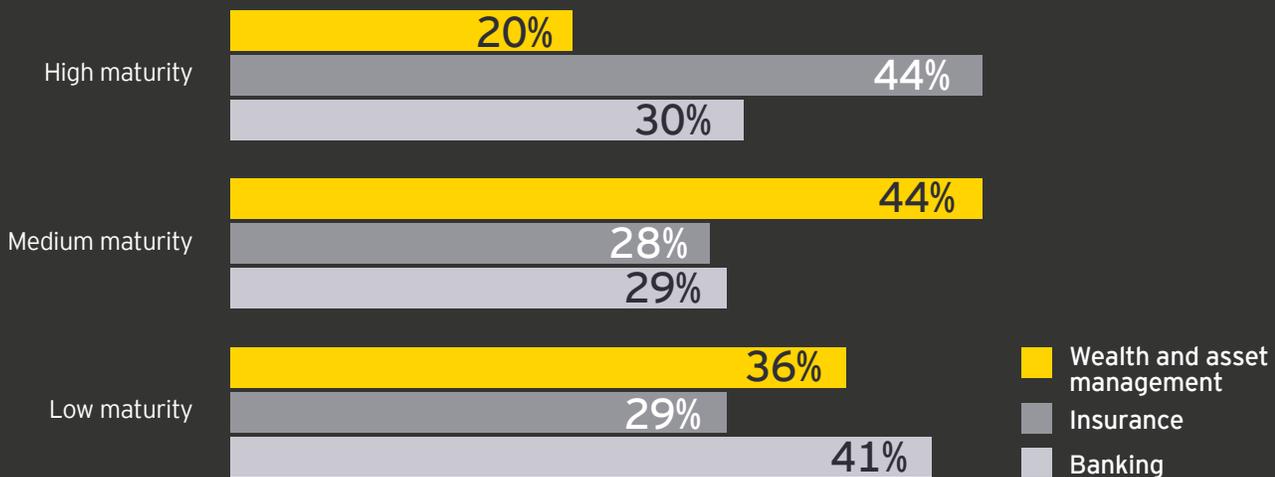
Transformation progress and focus vary by sector, thanks to unique sector dynamics.

Specific market conditions and competitive imperatives vary across banking, insurance and wealth and asset management. So it's no wonder that issues and opportunities relative to digital enterprise transformation also vary. The EY-commissioned study conducted by Forrester Consulting assessed the maturity levels, as well as goals, metrics, challenges and resource investments for banking, insurance and wealth and asset management.

Relative to digital enterprise transformation, insurers are the most mature overall and banks the least. See *Figure 16* Though the sub-sectors have largely similar transformation goals and KPIs, insurance is the most focused on changing customer expectations, which helps account for their edge in maturity. See *figures 17 and 18* Specifically, they emphasize designing organizational ecosystems around customer needs, driving speed and agility through open architecture platforms and integrating back-end systems and platforms to create next-generation digital experiences.

Figure 16

Overall digital enterprise transformation maturity



Note: Due to rounding, totals may not equal 100.
 Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Figure 17

What are the key goals of your digital enterprise transformation?

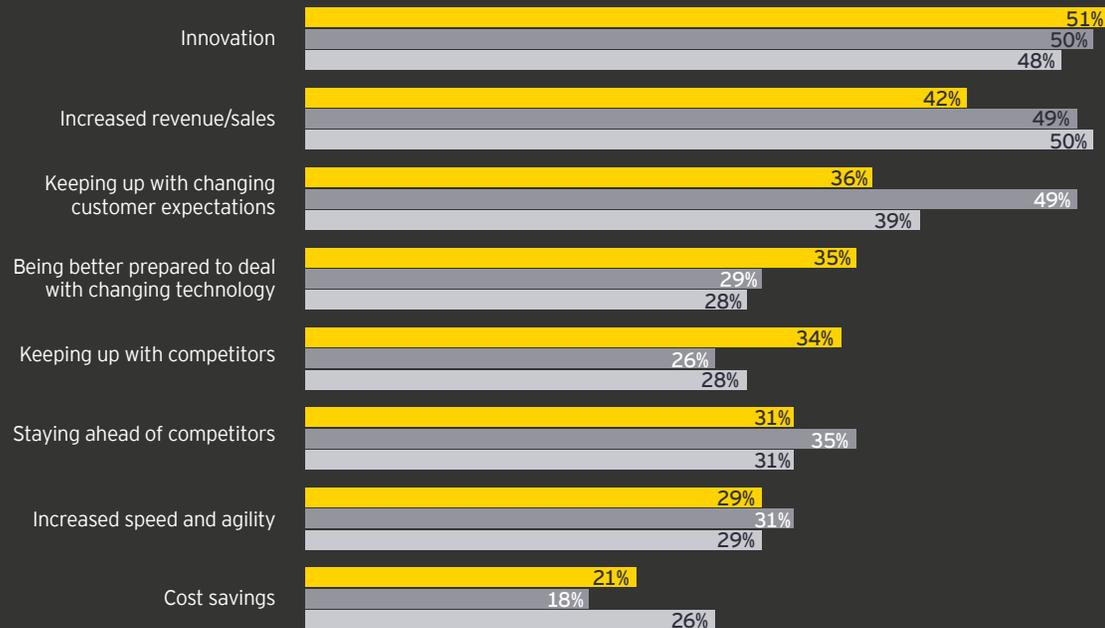
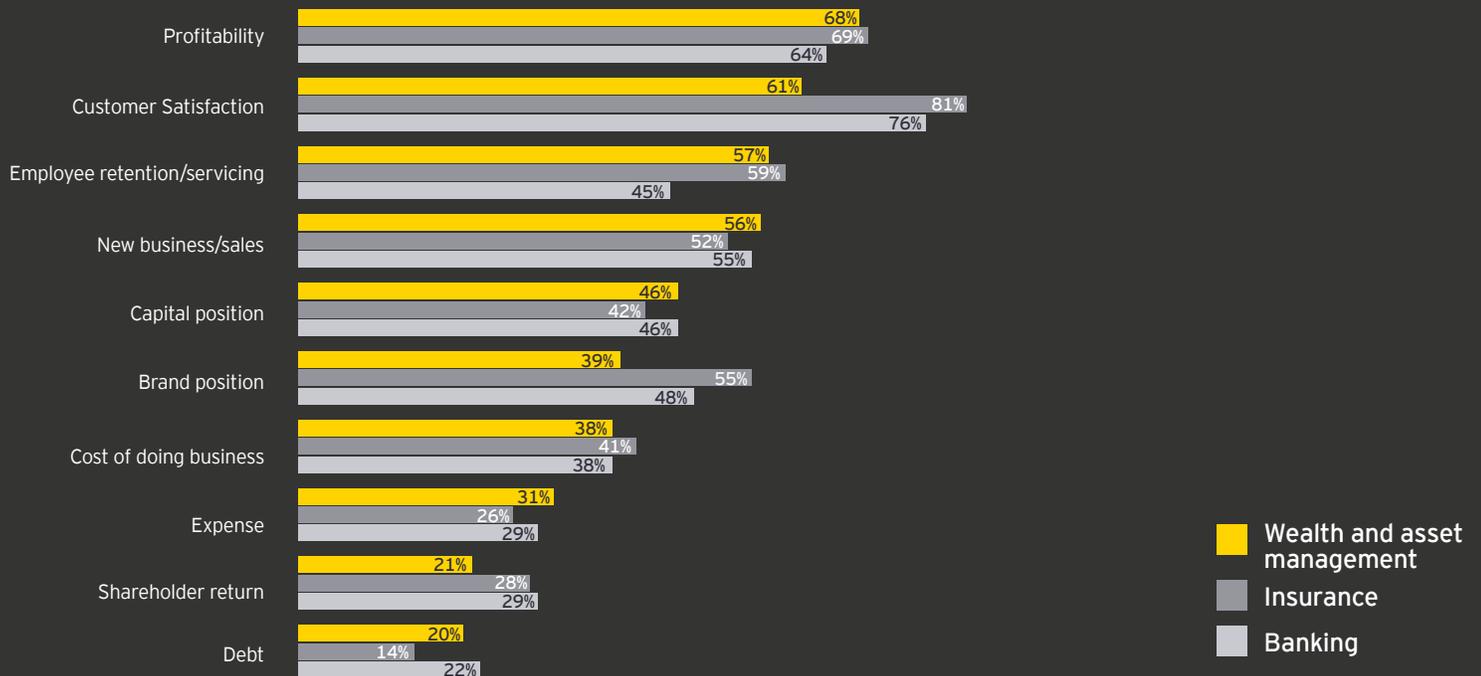


Figure 18

What KPIs are you tracking to ensure you reach those digital enterprise transformation goals?



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Sub-sector views

The unique product sets offered by insurers also help explain their customer-centric drive to digital maturity. Policies require “long-tail” service and customers use the products during important life milestones – two factors that place a premium on strong customer experiences.

Compare insurance products to high-transaction, high-automation banking products (e.g., deposit accounts and credit cards). Banks don’t necessarily need to know much about customer needs to start a relationship via a simple product. Insurers are highly motivated to know their customers, given that their products are only modeled on a risk profile. The more insurers know about their customers, the better their results are likely to be.

Proliferating technologies that will help insurers better assess their risks and manage claims more effectively also account for insurers digital focus. Artificial intelligence, robotic process automation, drones, telematics, wearable fitness trackers – all of these technologies are likely to have huge impacts on the insurance industry. Insurers that fail to incorporate them may imperil their legacy business.

Looking at challenges, insurers face greater data challenges. These challenges are the direct result of the long-term data aggregation effects from M&A activity in insurance, changing distribution models and, more recently, the massive influx of new data coming from digital technologies. They also explain why insurers are prioritizing cloud and blockchain solutions as a means to manage data more effectively and responsibly. These bold steps will help insurers exploit data in ways they could not before.

Banks struggle with organizational silos in driving transformation. *See figure 19*

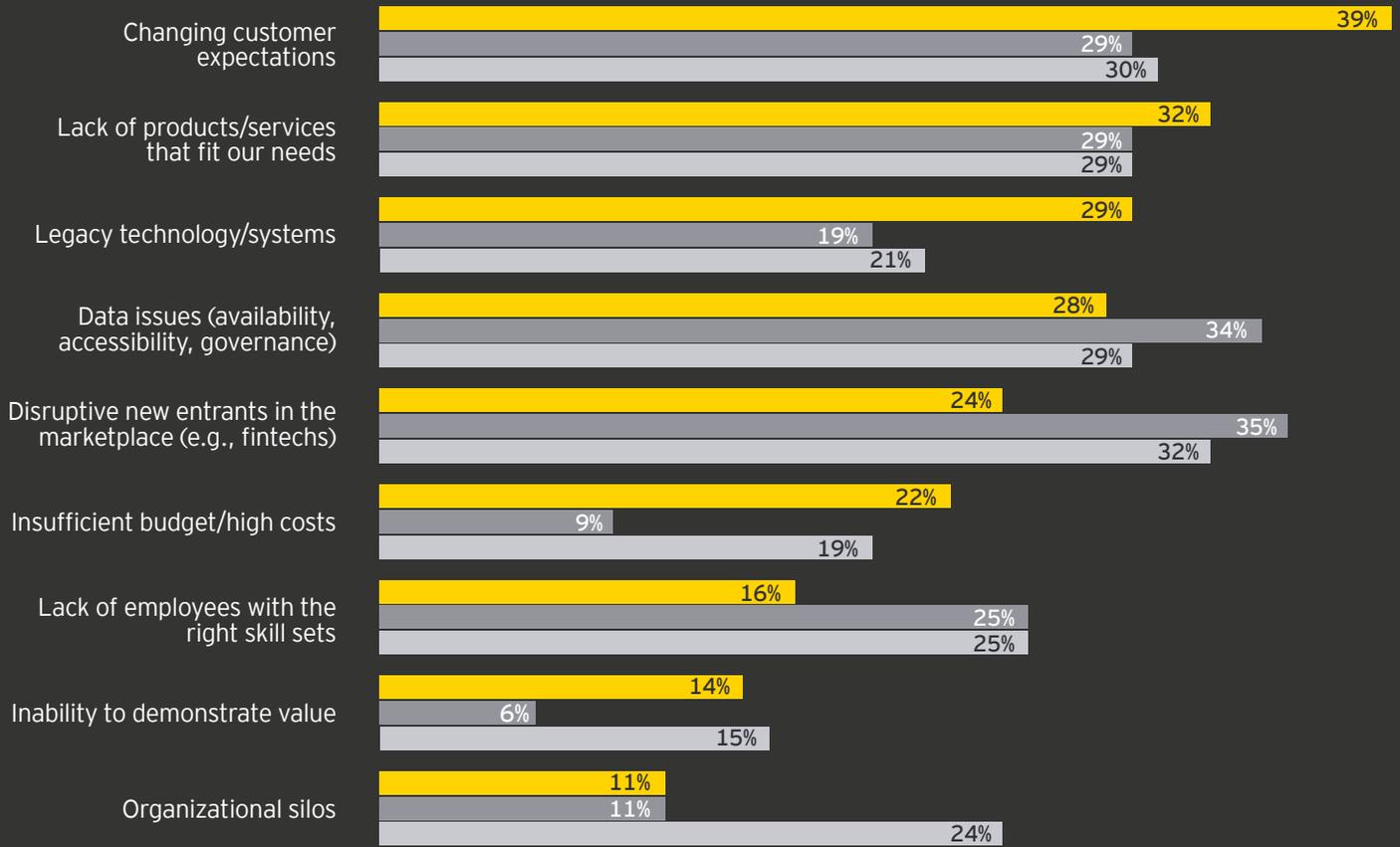
This is not a function of banks under-investing in or not allocating enough people toward their innovation efforts. *See figure 20*

While most banks organize innovation in a centralized or federated model, significant percentages of decentralized innovation teams exist, reflecting their generally lower maturity status. *See figure 21*

Again, the survey results make clear that it’s not how much money you invest in innovation programs that determines success; rather, it’s how you structure them.

Figure 19

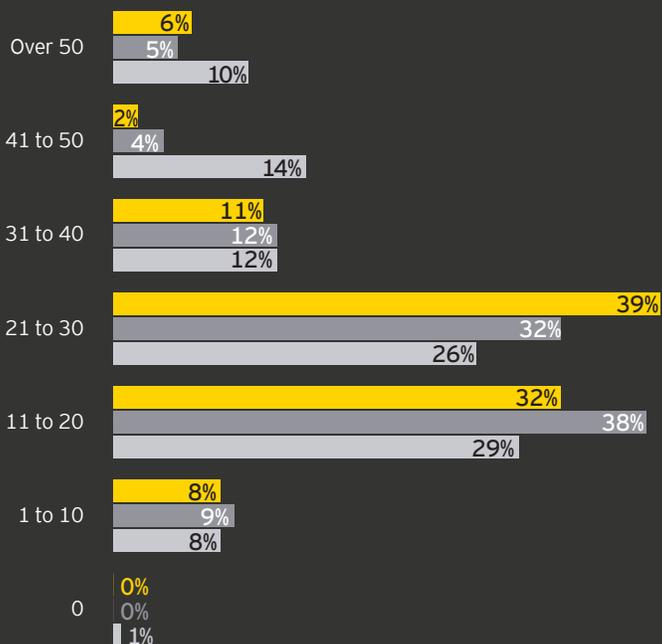
What are the key challenges you encounter as you attempt to digitally transform your enterprise?



Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Figure 20

Approximately how many people are tasked with managing and implementing innovation at your firm?



Approximately how much funding is given to managing and implementing innovation at your firm?

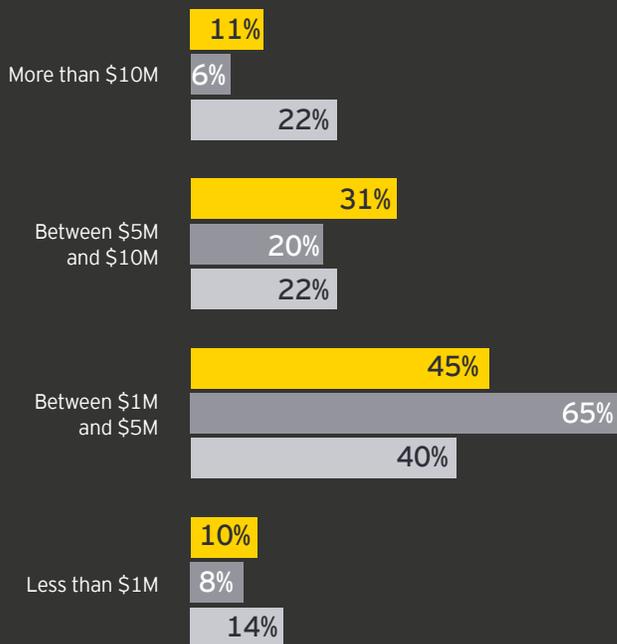
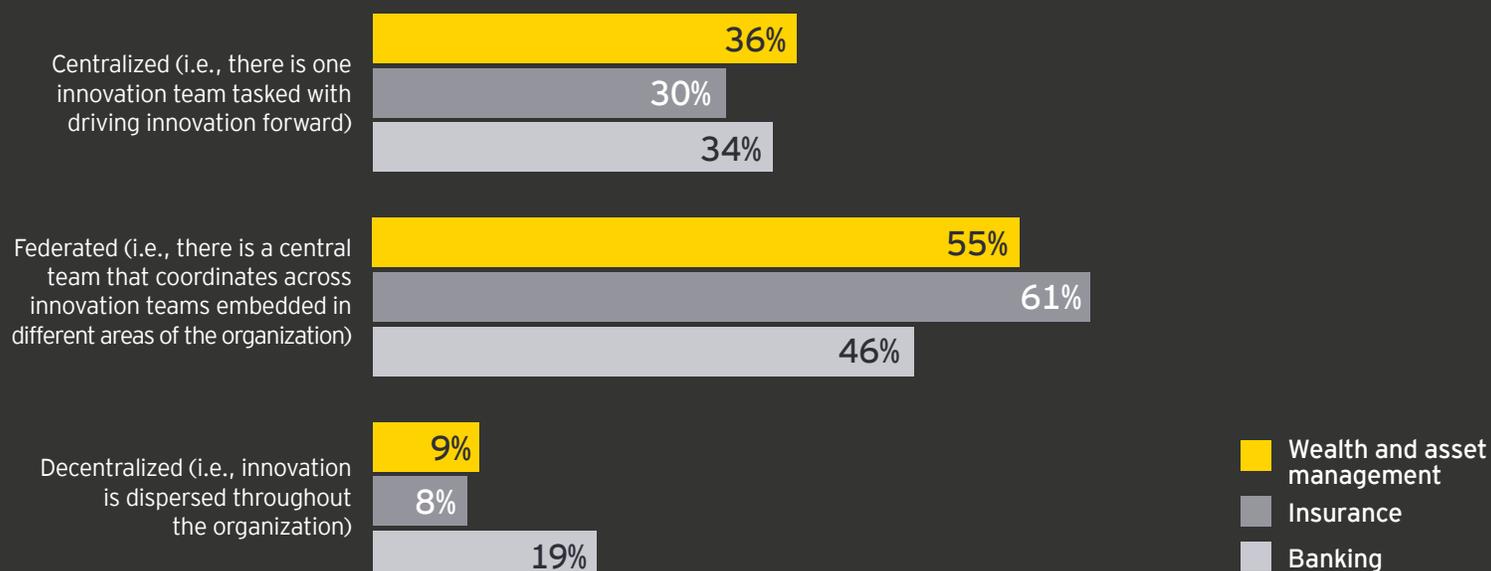


Figure 21

How is innovation structured at your organization?



Note: Due to rounding, totals may not equal 100.

Base: 240 digital transformation strategy decision-makers at banking, insurance, wealth and asset management, private equity and capital markets firms

Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018

Sub-sector views: Banking

Banks are ready for technology disruption, but are re-orienting the organization to advance innovation

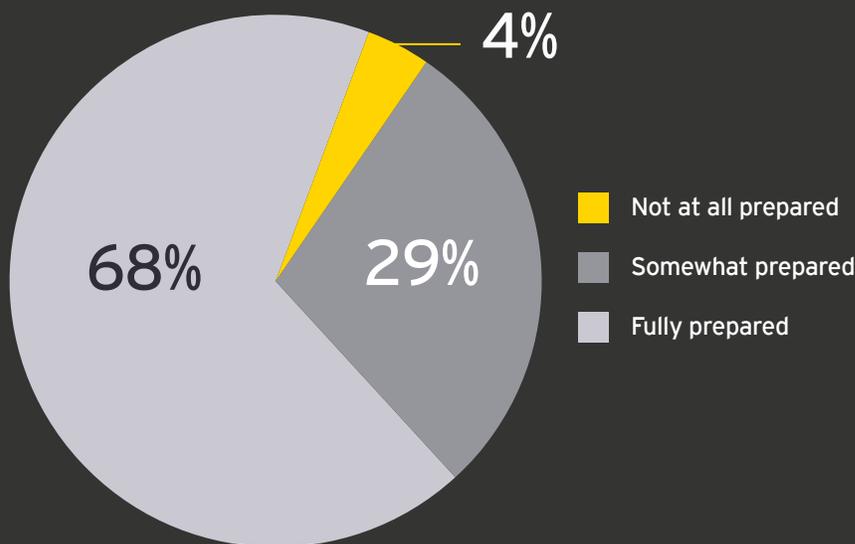
During the last 15-20 years, banks modernized their core systems and many customer-facing touch points, including digital channels. In that regard, they are ahead of firms in financial services. These efforts mean they are largely prepared to deal with technology and infrastructure advancements.

See figure 22

However, since 2008, regulatory requirements have taken precedence; banks deployed significant new infrastructure to achieve compliance. Now, they are focused on integrating that infrastructure to reduce costs and increase efficiency. The focus on integration is not surprising given how many banks remain challenged by organizational silos.

Figure 22

How has digital transformation prepared your firm to deal with technology advancements/connectivity?



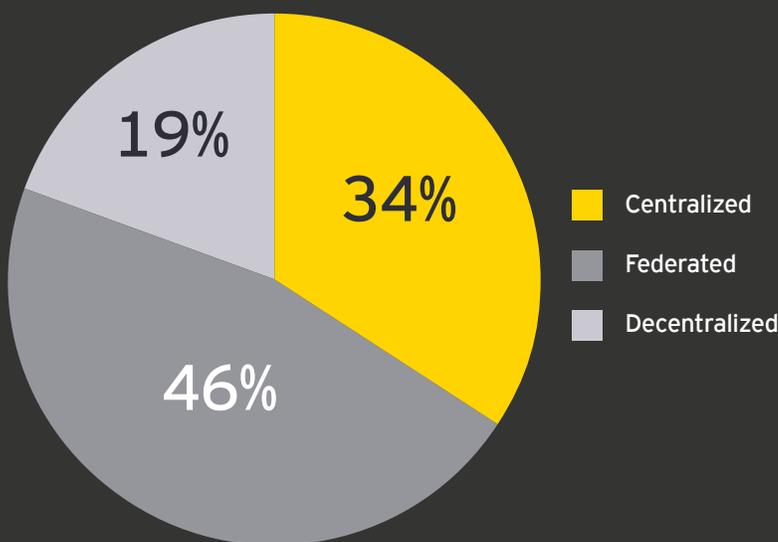
Note: Due to rounding, totals may not equal 100.
Base: 80 digital transformation strategy decision-makers at banks
Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
Not all responses shown

Given the lack of alignment between chief innovation officers, chief data officers and CTOs evidenced in the study, banks are likely struggling to find common targets for integration on a practical level (which reflects their struggle to strategically orient around customer needs to drive transformation).

Banks' innovation centers were largely built on legacy technology, which present challenges relative to accelerating and scaling innovation. They also must address the structure of their innovation efforts. The percentage of banks using a federated approach (with a central innovation team coordinating with other innovation teams across the organization) lags behind other sectors. See *figure 23*

Figure 23

How are innovation efforts structured at your firm?



Note: Due to rounding, totals may not equal 100.
Base: 80 digital transformation strategy decision-makers at banks
Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
Not all responses shown

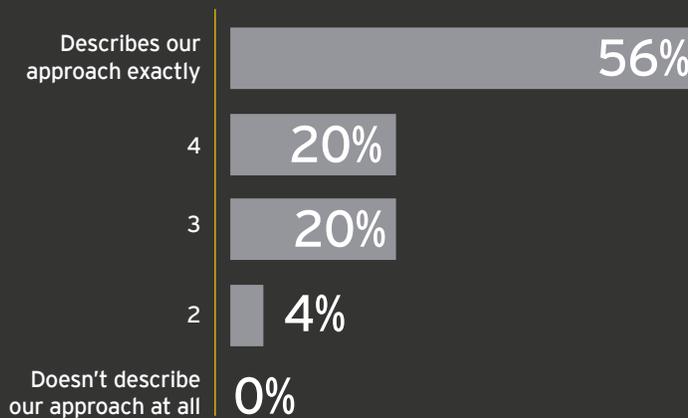
Sub-sector views: Insurance

Insurers prioritize customer needs and new experiences, largely due to competitive pressures.

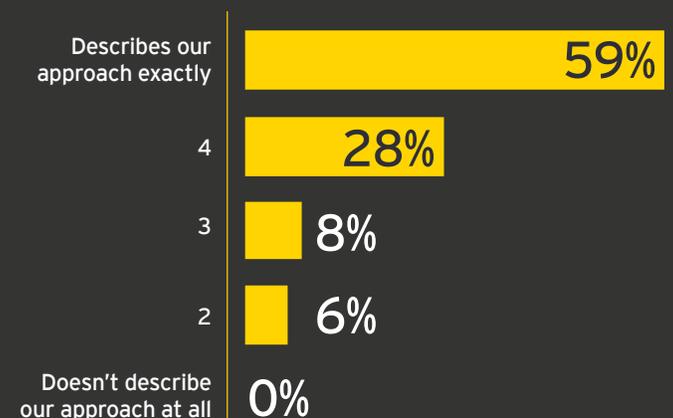
Digital enterprise transformation and innovation efforts in insurance have been sparked by the emergence of InsurTechs and the threat that non-traditional market players will enter the industry. Rising customer expectations, changing customer demographics and the need to modernize outdated legacy systems have also played a role. This combination of drivers has led insurers to be laser-focused on customer needs and interactions. See figure 24

Figure 24

We have redesigned all aspects of the company's ecosystem to better align to our customers' needs



We are integrating back-end systems and platforms to enable next-generation digital experiences



Note: Due to rounding, totals may not equal 100.
 Base: 80 digital transformation strategy decision-makers at insurers
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown



Many of the transformation strategies are centered on customer acquisition and servicing, with an emphasis on enhancing experiences and personalizing products. Many insurers are also developing new business models and new product offerings (e.g., usage-based insurance). In some cases, they are collaborating with external partners (including InsurTechs) in new ways.

Underpinning all of these efforts is ongoing integration of back-end systems, including the upgrades of legacy systems and the adoption of new cloud-based platforms. These systems are allowing previously siloed functions (such as finance, risk, actuarial, underwriting and claims) to share data more easily and collaborate more smoothly in support of customer-centric goals.

Respondent insights:

“There are three major goals from a business perspective. The first is basically more related to customer experience. The second piece is more about operational efficiency. It’s all about saving money and equipment. Third part is basically market competitiveness, effectively trying to do things in a unique way and a quicker way, primarily catering to the newer generations.”

CTO/CIO, American insurance carrier

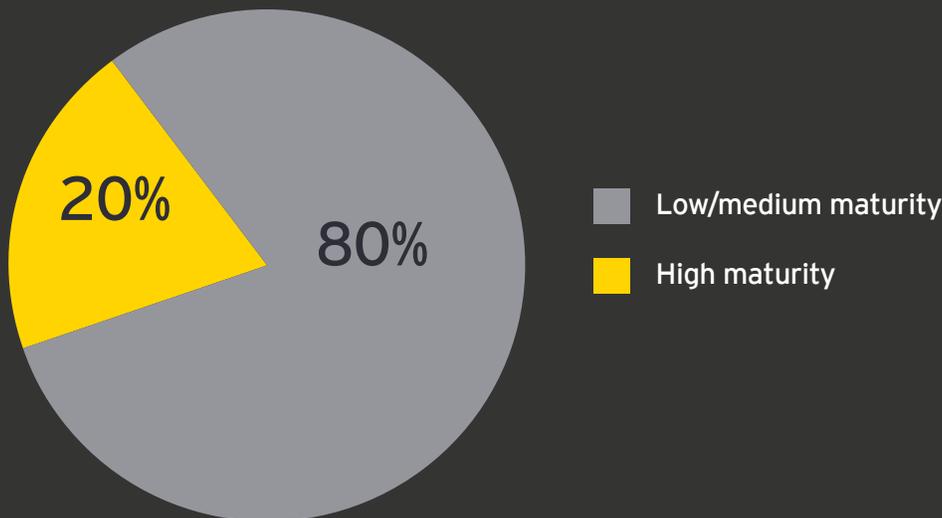
Sub-sector views: Wealth and asset managers

Wealth and asset managers are playing catch-up on digital transformation and are least prepared to deal with customer dynamics.

Wealth and asset managers have been slow to embrace transformation, largely due to the sector’s traditional emphasis on “relationships.” However, competitive pressure from FinTechs have forced wealth and asset managers to expand and accelerate their investments in digital enterprise transformation. That they are starting from a lagging position is evidenced by the relatively small number of digitally mature firms in the sub-sector. See *figure 25*

Figure 25

Overall digital enterprise transformation maturity – wealth and asset management



Note: Due to rounding, totals may not equal 100.
Base: 80 digital transformation strategy decision-makers at wealth and asset managers
Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
Not all responses shown

As in insurance, the emergence of new players – especially robo-advisors – has prompted wealth and asset managers to act. They are rightly focused on client experience, given that less than 40% feel prepared to deal with changing customer expectations. See *figure 26* Given that a third of firms feel vulnerable to the FinTech threat, wealth and asset managers are also focused in transforming operations and revamp business models. See *figure 27*

Figure 26

How has digital transformation prepared your firm to deal with changing customer expectations?

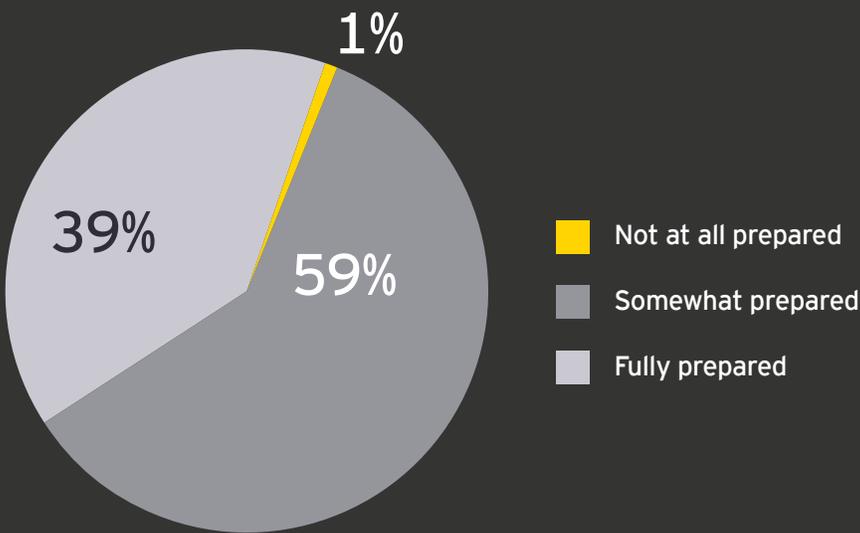
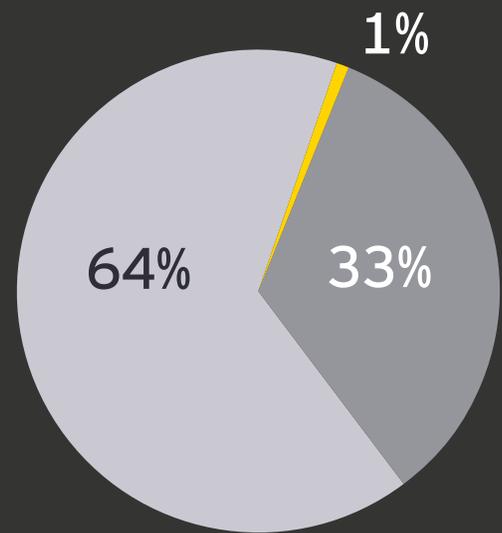


Figure 27

How has digital transformation prepared your firm to deal with business models becoming obsolete?



Note: Due to rounding, totals may not equal 100.
 Base: 80 digital transformation strategy decision-makers at wealth and asset managers
 Source: A commissioned study conducted by Forrester Consulting on behalf of EY, April 2018
 Not all responses shown

Recommended actions

Recommended actions: Thinking differently and acting boldly

Banks, insurers and wealth and asset managers seeking to enact full digital transformations must recognize the need for holistic and multi-dimensional change. That's true whether they are undertaking broad-based changes (such as operating model revamps) or seeking targeted improvements (such as process automation or cloud migrations). Again, the survey's insights apply to all types and sizes of financial services companies and all sizes of transformation programs.

As illustrated by the EY-commissioned research conducted by Forrester Consulting, digital enterprise transformation of any scope affects multiple aspects of the business:

- ▶ People and relationships – customers and employees, vendors and partners
- ▶ Organizational mission, structure and culture
- ▶ Business strategy and brand positioning
- ▶ Systems, technology and data
- ▶ Process design and performance
- ▶ Back-office functions and customer-facing touchpoints

New thinking and new capabilities, as well as more collaborative and productive ways of working, are required. That is why EY recommends that banks, insurers and wealth and asset managers strategize and act in five critical areas.

Embrace platform thinking: Companies have never had access to more data. The challenge now is creating meaningful connections between the many available data sources and types. Platform thinking gives organizations an opportunity to do just that. Building on their existing data sets, firms can create rich digital business platforms that offer new experiences and services to customers, vendors and employees.

Robust platforms lay the foundation for next-generation capabilities, especially relative to artificial intelligence, machine learning and advanced analytics. They can also help businesses reorient around cloud-based architectures and services and deliver “always on” digital and physical presences for better customer experiences.

Focus on experience design: In the digital era, customer and user needs are more important than products. For companies, experience thinking is primarily about empathy: understanding what customers want and then reimagining interactions and designing experiences to satisfy and delight them. This could mean expanding value propositions to strengthen relationships through new product offerings and engagement models (e.g., subscription-based options) or highly customized experiences for distinct segments. A focus on customer experience is a focus on growth.

On a practical level, it's about meeting customer expectations for improved service, enhanced value and personalized experiences. The key steps include user research and insight, customer journey modeling, channel mapping and campaign optimization, and end-to-end experience architecture and design. It coordinates and synchronizes marketing operations with customer relationship management, with an increased emphasis on analytics – all of it laser-focused on customer needs.

Digitize legacy assets: In cultivating new mindsets and competencies, few organizations can afford to start from scratch, though the boldest may take a “greenfield” approach to some parts of their businesses. Legacy systems and data sets in many cases must be digitized: integration and automation can significantly extend the life and expand the value of these foundational assets.

Digitizing legacy is about eliminating inefficiencies and manual processes wherever they exist. Better systems can remove friction between the front, middle and back offices, potentially freeing up resources for growth investments. Lean process engineering is another critical step as organizations seek to brush out the cobwebs and connect the dots.

Be digital: Digital doesn't just refer to technology. Rather, it's a culture or way of life. Being digital is about transforming the core of the business to set a higher bar for the competition and win in the battle for scarce talent. To win at digital, businesses need to reexamine physical environments, operating constructs, compensation and incentive structures, communications and training plans.

A sustainable approach to transformation ties together purpose, experiences and capabilities, and concentrates on people. Being digital requires redesigning a company's ecosystem, rather than simply investing in technology. That's how banks, insurers and wealth and asset managers can develop and sustain the creative, technical and digital leadership needed to continuously innovate and rigorously implement new customer experiences.

Cultivate digital trust: Given the critical role financial services companies play in the lives of their customers and in communities around the world, trust and security are essential. To become truly digital, companies must recognize the full range and severity of cyber risks, as well as active strategies and robust tactics to safeguard sensitive data and secure all transactions.

Fundamentally, it's about cultivating risk intelligence, building advanced continuous monitoring skills and embedding cybersecurity throughout the digital enterprise in ways that are non-disruptive to customer experiences. In fact, firms that design and deploy the right security models and capabilities, can actually enhance organizational agility and resilience to accelerate their growth strategies. “Trust by design” helps prevent the customer experience from being locked up or bogged down.

Digital trust is not a box-checking, compliance exercise; it is the essential element of a safe and productive digital ecosystem across the industry and a hallmark of strong financial services brands.



A final word

Significant progress vs. the long road ahead

Beyond these survey results, the experience of EY across the financial services industry confirms the considerable progress companies have made in their digital journeys during the last five or ten years. Survey respondents offer ample evidence that the industry believes itself to be quite digitally advanced, even in the face of extremely complex challenges and powerful threats. For instance, company readiness to deal with intensifying and proliferating threats to cybersecurity is one such area where survey results may not accurately reflect everyday realities.

Indeed, there is risk for the industry both in overestimating its digital progress to date and underestimating the challenges it faces. Some firms may not fully understand where they are relative to peers and competitors.

The priorities of the recent past and the near future reiterate how transformation and innovation undergird everything firms need to succeed – from operational excellence and workforce optimization to product development and customer service. The considerable overlap in the priorities of leaders, laggards and the middle cohort make clear that more firms understand the need to focus on customer needs.

However, the survey results confirm that there is meaningful – even stark – differences in how leaders and laggards approach transformation and that the best-in-class model used by leaders pays off with greater positive impact against top KPIs.

The bottom line: the strategic agenda will remain full for senior leaders in banking, insurance and wealth and asset management, with digital enterprise transformation at the very top.

Contacts



Yang Shim
Principal, Digital Enterprise
Transformation Leader
Financial Services Advisory
yang.shim@ey.com



Kevin Koenig,
Principal, Data & Analytics Leader,
Insurance
Financial Services Advisory
kevin.koenig@ey.com

Nikhil Lele
Principal, Banking & Capital Markets
Financial Services Advisory
nikhil.lele@ey.com

David Connolly
Principal, Insurance
Financial Services Advisory
david.connolly@ey.com

Scott Becchi
Principal, Wealth & Asset Management
Financial Services Advisory
scott.becchi@ey.com

Further reading

A vision for platform-based banking



[Download the complete report](#)

Technology disruption and the future of wholesale banking



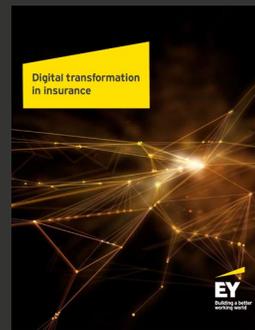
[Download the complete report](#)

Digital Disruption in Wealth Management



[Download the complete report](#)

Digital transformation in insurance



[Download the complete report](#)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EY is a leader in shaping the financial services industry.

Over 30,000 of our people are dedicated to financial services, serving the banking and capital markets, insurance, and wealth and asset management sectors. At EY Financial Services, we share a single focus - to build a better financial services industry, not just for now, but for the future.

© 2018 EYGM Limited.
All Rights Reserved.

EYG no. 03730-181US
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com