Financial Services Leadership Summit
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VIEWPOINTS

Technology is driving competitive advantage in financial services

The COVID-19 pandemic accelerated technology transformations in large financial institutions, as employees moved to remote work and as customers shifted to digital channels. Customers have come to expect uninterrupted, personalized digital products and services, adding to pressure as large financial institutions rework processes, accelerate investments, and explore new applications. A director said, *"Legacy institutions, banks and insurers, are now moving much faster to improve customer experience because COVID-19 has accelerated the need to do that. They have to do this because traditional service solutions simply no longer work and will never work the same way again."*[1]

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> – Director

Technology transformation has been ongoing for some time, and the barriers and challenges are well known: the scale and cost of major upgrades, the complexity created by legacy technology, institutional inertia, and regulatory and compliance requirements. Though many of these underlying challenges persist, attitudes are shifting; leaders recognize the need to move more quickly and to try new things. At the same time, technology has advanced in ways that make more fundamental transformations faster and less costly, while also expanding opportunities for experimentation. A director said, *"I think we need to spend wisely—you can waste a lot of money just as easily as investing correctly—but we simply have to stay in the race."* Financial institution leaders have an opportunity to learn and react.

At the Financial Services Leadership Summit held on November 10–12, financial institution directors and executives, regulators, investors, and EY experts discussed how financial institutions have adapted to the pandemic and the options for firms as they accelerate broader systems upgrades to support new approaches. They also discussed the implications that the path forward has for talent and culture needs. This *ViewPoints* synthesizes key themes that emerged in conversations in advance of and during the summit. At the summit, participants were joined by several guests: Cathy Bessant, chief operations and technology officer, Bank of America; Jim Cunha, senior

> *"Technology is the essential variable determining competitive advantage in financial services today."*
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> – Participant

vice president, Secure Payments and FinTech, Federal Reserve Bank of Boston; Scott Liles, President, Spire Insurance; Hans Morris, founder and managing partner, Nyca Partners; Kiet Pham, principal, Americas banking and capital markets technology leader, EY; and Andy Rear, CEO, Digital Partners, Munich Re.

The *ViewPoints* explores the landscape from the following perspectives:

- **Technology transformation is a strategic imperative**
- **Ways of addressing critical technology needs are evolving**
- **The changing nature of work has implications for talent and culture**
- **Evolving risks and opportunities require effective governance**

Technology transformation is a strategic imperative

Summit participants noted that the maturity of a firm's digital capabilities will increasingly differentiate financial institutions from their competitors. One stated, *"Technology is the essential variable determining competitive advantage in financial services today. This has not always been true; things like profitability, history, and scale all played much bigger roles before, but that's not the case anymore."* Another participant shared a similar perspective: *"I believe, fundamentally, that technology has become table stakes in financial services, and our customers aren't going to allow us not to be brilliant at it."*

Customer expectations are spurring the drive to invest in technology

> *"A lot of customers are still not well-served by their financial institutions and are migrating elsewhere as a result."*
>
> – Participant

The pandemic accelerated adoption of digital financial interactions. A bank executive said, *"Pick any part of our business and you can see it. The percentage of people that will cash a check digitally has doubled. The number of checks and paper in the systems dropped drastically overnight. The amount of people using our web portal is way up … The marketplace and the people are demanding this."* The surge in demand caused by the pandemic underscored incumbents' long-standing need to improve their digital offerings or risk losing customers to competitors, including new entrants and technology companies. A participant observed, *"Over the last few years, we were already seeing that customers simply won't put up with inferior products or poor digital experiences, and a lot of customers are still not well-served by their financial institutions and are migrating elsewhere as a result."*

"Right now I think every firm should be focused on just moving faster."

– Participant

To respond to the personalization that customers expect, financial institutions must improve how they manage data. In a discussion prior to the summit, a fintech CEO said, *"As I think about what the world looks like for financial services 10 years from now, all of this is gravitating towards hyperpersonalization. Whether you are a fintech, a bank, an insurance company, or a tech company, whoever can give an experience and solution set that meets the customer's needs the best and simplifies their life will get the eyeballs."* Incumbent financial institutions have historically taken a more product-centric approach, with systems and data aligned to that structure. An EY executive observed, *"We still don't see many financial institutions that have the scale and ability to move fast enough for hyperpersonalization. They don't have the ability to solve the data problems that exist and move [the solutions] across channels. They don't have a holistic digital strategy."*

Firms that were further along the technology transformation journey have fared better in the pandemic. A report in *Forbes* observed, "Almost overnight, the COVID-19 crisis widened a performance gap—between those organizations that invested in technology innovation at scale before the pandemic and those that did not—into a chasm."[2] An executive said, *"It's clear that firms that embraced modern technology before COVID were able to respond better. And for the ones who did not respond as well, surveys tell us that their customers will not be forgiving for long. Moving too slowly is a major risk."* Participants said that to remain competitive, institutions should prioritize agility and innovation. One said, *"Right now I think every firm should be focused on just moving faster and holding yourselves accountable to heightened customer expectation standards across every product and service that you have across your institution."*

"We're now seeing the value chain of banking being challenged. Banks have to decide if they want to be manufacturers of banking products or distributors."

– Executive

The unbundling of financial services will continue

Incumbent banks and insurers typically look to technologies to increase the efficiency of business models that have evolved over decades or centuries. A fintech, by contrast, tends to start with a customer problem, identifying ways to address it with digital tools and building entirely new business models. As firms consider how to provide solutions where and when customers need them, they are rethinking traditional business models. Participants discussed a few key areas where new models are being enabled and the potential risks and opportunities for financial institutions. An executive said, *"We're now seeing the value chain of banking being challenged. In many cases, banks have to decide if they want to be manufacturers of banking products or distributors.*

We're seeing big tech more interested in playing in the channel distribution side rather than in the manufacturing. At the same time, there's consolidation on the manufacturing side—fewer banks want to be manufacturing products—but we see a huge expansion on the distribution side."

Financial institutions are also weighing the potential of banking- and insurance-as-a-service models, which would enable them to partner with leading providers to businesses and consumers, although at the price of potentially losing their primary interface with customers. A director said, *"The point about bundling and unbundling, that's right at the core of how existing big banks are able to compete or not in the future. When you talk to young people, some of them are now using up to 20 applications to manage their financial services. That means for many vendors, the value chain is being sliced down to slivers of revenue streams that are so small. You have to wonder, how many firms survive in this process?"*

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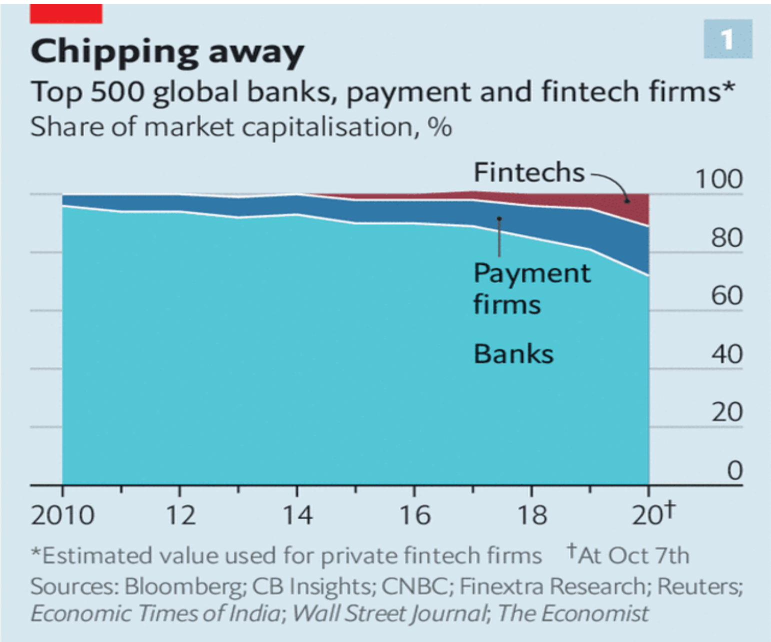
– Director

The threat from tech companies may be approaching a tipping point

Fintech, insurtech, and big tech companies continue to expand financial services offerings and gain market share (see *The Economist's* analysis in Figure 1, below), and the various emerging models in the sector may represent increased opportunities for them to do so.



Source: The Economist, *October 8, 2020.*

The threat from big tech

"The pace of nonfinancial institutions providing financial products is accelerating. It's amazing to see so many financial institutions who don't even understand what these products or trends are. Embedded finance is very real … banks don't get mind share from us; other platforms do."

– Fintech CEO

The unbundling of financial services and the emergence of models like embedded finance offer opportunities for big tech firms, but do they have the appetite to enter financial services directly? A director said, *"We ultimately believe they will be scared to enter such a heavily regulated space. In fact, many regulators and politicians would love for them to do so because they would finally have a way of getting a handle on those companies. I just do not see them doing it. They will experiment and enter in selective areas, but I don't see them becoming digital banks."* Another observed, *"We've talked about this forever. It's been 20 years now, and they haven't done it. They chip away at the edges, but they'd rather play on the edge and let the banks and insurers carry the regulatory weight."* But another participant cautioned, *"This is the perfect stage for big tech to descend into financial services … They could really disrupt the sector."* China—where digital payments are widely popular and use of cash far less common—is sometimes seen as a portent of the future in the West. Fast-moving technology giants such as Ant Financial and Tencent dominate the payments and some other aspects of financial services, taking significant market share from the state-owned banks, in some respects converting them to utility roles. As noted, technology companies do not have to offer financial services of their own; many are embedding offerings from insurers, banks, and challengers directly in their platforms. A director said, *"They've already got the applications of convenience for many customers, but I don't think they want the regulatory weight. If they can just be the portal and get the transaction and customer data, they will happily turn banks into utilities. The challenge for financial institutions is figuring out how to maintain the customer interface and prevent that."*

There are indications that customers are warming to the idea of a role for big tech in financial services. A recent study noted, "Policyholders' willingness to purchase insurance from Big Techs has increased from 17% in 2016 to 36% in January 2020 to 44% in April 2020."[3] A similar survey found that 24% of US consumers would be "very" or "extremely" likely to make Amazon, Apple, or Google their primary financial services provider if doing so made money management easier.[4] Google's recently relaunched Google Pay platform includes an "Insights" offering that allows users to connect to their bank accounts for a searchable overview of their finances. In 2021, Google will partner directly with several banks and credit unions to offer fully online checking and savings accounts within the application.[5] The CEO of a leading

"There are very few parts of the insurance spectrum that have been lost to challengers, whereas in banking you can already spot some places where fintechs have won."

– Participant

fintech stated, *"The pace of nonfinancial institutions providing financial products is accelerating, with Google accounts being the latest example of that. It's amazing to see so many financial institutions who don't even understand what these products or trends are. Embedded finance is very real. It all comes down to who has mind share with customers. Banks don't get mind share from us; other platforms do."*

Challengers' opportunities and vulnerabilities

Fintechs and insurtechs join big tech companies in continuing to challenge incumbent financial institutions. *"Fintechs and insurtechs are changing our idea of what financial services are. They don't all work, but they're creating products, and it's not one-off selling. It's creating a service,"* one participant said. Participants suggested that incumbent banks may be more vulnerable than insurers. Although underwriting and distribution are susceptible to disruption, one participant noted that *"insurtech is still really early in the journey compared to fintech. That means there is still opportunity for incumbents to win across that space. There are very few parts of the insurance spectrum that have been lost to challengers, whereas in banking you can already spot some places where fintechs have won."*

"Much of what is possible for the most successful fintechs is built upon something that we built and chose to sell. We should learn some lessons from that."

– Participant

But the pandemic has created a shakeout among the challengers. A flurry of fintech acquisitions in the early months of the pandemic illuminates their potential struggles.[6] In September, one report suggested that the fintech sector faced an "existential threat" from pandemic-induced adverse economic conditions and insufficient available funding.[7] Incumbents may also benefit from a trust advantage that is difficult to overcome, participants said. One executive said, *"COVID has changed things. I think what banks have that no one else has is the trust of customers. They have the data and the compliance. The pandemic has shone a light on the trust side of things, and more and more customers are actually moving to bigger banks and away from the challengers and fintechs."* Another participant noted the opportunity for incumbents: *"The most successful fintechs are in the payments space and they ride on the rails of interchange and Visa and Mastercard, which the banks built. So, much of what is possible for the most successful fintechs is built upon something that we built and chose to sell. We should learn some lessons from that."*

Ways of addressing critical technology needs are evolving

Changes in the financial services ecosystem, developments in technology, and the current sense of urgency have changed how firms consider addressing technology needs.

Firms have quickly expanded adoption of technologies

As they rushed to adapt to the challenges of the pandemic and meet customer needs, insurers and banks quickly implemented technology at scale across their organizations. An executive said, *"I don't think of this as a technology transformation, because there is very little technology that we're using that is new to us. It is more of an adoption transformation, and it's not just us as an organization adopting technology at a faster rate, but society is as well."*

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– Executive

Intelligent automation has great potential, but also raises governance challenges

Artificial intelligence and machine learning enable firms to reduce costs and gain efficiencies, as employees are repositioned to areas where they can add the most value. Insurers are deploying AI to assess risk in new ways, carry out underwriting, and process claims, among other tasks. Banks are using the technology across many operations, including fraud control, lending, and customer interactions. The pandemic has accelerated adoption.

For example, UBS, which now has more than 2,000 software bots operating across the business, created six new chatbots in just three days to assist client advisers in handling huge flows of COVID-related loan requests.[8] Similarly, Guardian Life Insurance launched an AI-based "digital agent" that can help customers access information about claims using natural-language queries. The project, which would previously have taken months to deploy, was implemented in just three weeks.[9] A wave of digital challengers that leverage artificial intelligence in new ways are also pushing incumbents to improve their AI offerings. Lemonade, an insurtech that was valued at over $1.6 billion when it went public in July, uses AI and other tools to quickly underwrite and pay out claims through its popular smartphone application.[10]

Customers are also becoming more comfortable interacting with AI bots. Bank of America's digital assistant, Erica, an AI-powered conversational banking bot, had been downloaded by about 10 million users as of year-end 2019, two years after its launch. The crisis resulted in an explosion in demand, with the bank adding one million Erica users a month from March through

"Ethics of AI and modeling are going to get more and more critical."

– Director

May.[11] Tools such as these are not only appealing to customers, but also present a significant opportunity for financial institutions to gather data on what requests customers make and to use it to identify features customers want that are not currently offered.

As adoption expands, oversight and risk management of these processes will be critical. A director asked, *"Issues like the ethics of AI and modeling are* *going to get more and more critical. Does it reinforce existing failures and discrimination that already takes place? It's a big problem that the industry needs to improve on."* Another pointed out, *"Simple things like AI model attribution are still a big problem for many financial institutions."* It is for these reasons that independent testing of AI models has become a critical aspect of risk management. *"The element of testing that we find most important is independence. The modeler cannot be the tester; the independent testing must be conducted away from the modeling,"* an executive said.

Cloud migration continues to grow

"Cloud-native technologies let you control data the way you need to. For the firms that are successful, it's going to be more seamless, more automated, more on-demand."

– Participant

Over the course of just a few days in July, Goldman Sachs, HSBC, and Deutsche Bank all struck major deals with large cloud providers.[12] The *Financial Times* noted, "After years of foot-dragging, many [banks] have been abandoning their cautious approach to cloud-based services and signing up with gusto."[13] The pandemic has also accelerated insurance firms' migration to the cloud. An EY report stated, "The crisis has highlighted the serious threats to resilience posed by insurers' operational complexity and inflexible systems. Thus, it underscored the need for simple, agile and modernized systems and will accelerate the trend toward disposal of legacy businesses."[14] The shift to the cloud has been seen by many as a necessary move for financial institutions trying to become more agile and meet customer needs. A participant stated, *"Cloud-native technologies let you control data the way you need to. For the firms that are successful, it's going to be more seamless, more automated, more on-demand, and the friction you have will end up disappearing."* Participants discussed the state of cloud adoption in financial institutions:

- **Early cloud adopters benefited.** Evidence suggests that firms that invested heavily in the cloud prior to the pandemic were better positioned to respond to the crisis because they were able to adjust internal workflows more easily to quickly carry out government support schemes and efficiently set up virtual call centers. An industry commentator stated, "COVID-19 has helped settle a debate that has rumbled on in the banking industry for years—how and when to adopt cloud technologies. Before the pandemic, nearly every bank in the world had adopted cloud computing in some form as they chased efficiency, scale, and resilience. However, aside from a few evangelists, most banks had only dipped their toes in the technology. As we begin to get a little hindsight from the strict pandemic-related lock-downs, many banks are eager to dive in because cloud-based systems proved their mettle when banks needed to pivot to remote working, quickly upgrade customer-facing software, and snuff out fraud."[15]

"Your cloud infrastructure can be internal, it can be external, it can be hybrid. Whatever strategy you choose, they can all fail, and they can all be successful."

– Executive

- **Firms are taking varying approaches to cloud strategy.** Many financial institutions are pursuing an approach that leverages a full range of public, private, and hybrid cloud solutions. Participants stressed that boards should *"have discussions with management about cloud strategy."* A director said, *"It's not so much about which vendor or whether they're internally or externally hosting as much as it is important to hear them describe how they are approaching it, what the thought process is, and how they are making decisions."* An executive said, *"Your cloud infrastructure can be internal, it can be external, it can be hybrid. Whatever strategy you choose, they can all fail, and they can all be successful."* To address the unique needs of financial institutions, Goldman Sachs floated the idea of creating an external cloud system specifically for financial services institutions.[16]

- **Some questions about adoption persist.** The implementation of complex IT projects, such as large-scale system transitions, can carry significant risk even in the best of times, and some leaders are still skeptical about a wholesale move to the cloud. Detractors cite concentration risks, given the small number of significant cloud service providers to financial institutions, and some worry that providers could even become competitors. A director said, *"I'm highly skeptical of everything going to the cloud. I have been very uncomfortable with some of these cloud conversations because it feels like everyone has convinced themselves there are no risks. That frightens me. There are only a few providers, they are unregulated, and they have not necessarily covered themselves in glory in terms of ethical positions they've taken in the past. My job is to be skeptical, and I don't think this is something that is hard to be skeptical about. But when I ask basic questions about it, I feel like people are glaring at me."* Another noted, *"We are talking about two challenges wrapped up together: One is a conventional migration from one platform to a new banking platform and all the risks that go with that. The other is that most of the platforms now are cloud-based. There are very few engineers, operators, in most financial institutions who are cloud-native experienced. And therefore, the challenge of migrating to the cloud at the same time as migrating to a new platform, it multiplies the challenges and risks."*

Improving core systems is increasingly critical to strategy

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While financial institutions have focused on improving the customer interface, broader transformation efforts have been hampered by legacy core systems. Few have the up-to-date underlying systems that are essential to improve data management and tailor products and services in real time. *"Once you realize how fast you need to move, it ties back to what the system of record needs to look like and what the strategy is around getting it to that point,"* said one participant. While financial institutions have invested heavily in technology, they have often been accused of "kicking the can down the road," when it comes to upgrading their core systems. That is changing. An executive observed, *"Looking at what customers get from big technology providers, that ease and personalization, they're now expecting that from big financial institutions. You can't do that without modernizing your core stack."* Another participant noted, *"Almost all of the profit pools in financial services historically have been due to a competitive advantage of data. But now we are talking about incorporating data into making sure every product is relevant to the customer … The problem is, in an existing bank or insurer, it just won't work because you're still pulling data out of those older core systems. It's really hard to create a real-time assessment across all of that data. New cores can do that."* Updated core systems are crucial for innovation as they not only enable new possibilities, they also free up technology budgets. An executive said, *"Currently, 70% of financial institution IT spending is on maintenance rather than innovation. That's preventing firms from doing the cool stuff that they need."*

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>
> – Participant

To date, the complexity and cost of addressing those systems, and fears of making big bets on technologies that could quickly become outdated, have often slowed major infrastructure upgrades. One participant noted the challenge of freeing up the investment dollars: *"If any of us pull out of these frontline investments, we are going to be really challenged."* Regulatory oversight also makes innovation in this area a challenge, a director said, *"We need to work with regulators to get some license to do things that are not always going to be 100% effective, because that's the only way to do it. If a big bank tries to make a move to transition and it goes wrong, there needs to be some space created to allow slightly more room for mistakes than currently exists."* Regardless, participants said firms need to make strategic investments in this area now if they are going to be prepared for the future.

"It could easily take a few years to achieve, so that's why the core strategy needs immediate attention."

– Participant

"In the past, [financial institutions] asked, 'Is this going to take three, four, five years? What is the business case?' Well, the technology has changed. There have been huge advances … that all make the business case much more attractive."

– Participant

One observed, *"It could easily take a few years to achieve, so that's why the core strategy needs immediate attention."*

A variety of approaches are now available to institutions

Financial institutions are exploring a range of approaches to upgrading their core systems. *"I think what has stopped institutions in the past is that they asked, 'Is this going to take three, four, five years? What is the business case?' Well, the technology has changed. There have been huge advances in cloud technology, data technology, and APIs [application programming interfaces] that all make the business case much more attractive. Further, there are different ways to go about the transformation,"* noted one participant. The group discussed several of these:

- **Layering over the core.** Rather than completely replacing core systems, many firms are using APIs to connect enhancements to the core—what one participant termed *"wrapping the core."* This allows firms to upgrade capabilities quickly. A participant said, *"Firms need to modernize experiences really quickly. I think wrappers are the best way to do that because you can get to implementation within weeks."* This participant added, *"But you will also need to rethink the core and total data infrastructure at some point."* An EY expert observed, *"I see a lot less tolerance for the three-to-five-year projects … When thinking about trying to build certain functionalities, we're seeing more tendency to buy every year and get pieces, rather than going into a full-financed transformation program. We see a demand to move more of those dollars into offensive things that can help the company more quickly."*
- **Launching new initiatives as testing grounds.** Some firms are experimenting with greenfield approaches, creating entirely new platforms outside of traditional business lines, allowing for experimentation and the option to migrate mainstream businesses from the legacy core in the future. An executive explained, *"A big entity working in a regulated market inherently builds structures which prevent change, prevent experimentation, because those things prevent risk. It's extremely hard to change those structures from the inside at scale; it's often impossible."* Hence, the greenfield approach is appealing to many firms. A participant said, *"We've seen banks set up a greenfield bank and then migrate services over to that greenfield bank in batches, whether a product or segment. Santander created Open Bank—that's sort of the digital arm, their fast-moving arm. They're now starting to move services*

from the Santander mothership to Open Bank." An executive, describing the successful launch of such an initiative, related, *"We were basically trying to build a rule-breaking culture within a regulated, rule-following institution. We were only successful because we had the support of the board … Without that board engagement and support, it's very easy for the machine that is a large institution to crush you."*

- **Replacing the core in a "big bang."** A few participants noted that there may be opportunities to make wholesale changes now and holistically address core systems infrastructure. One participant said, *"I think a real change is taking place. Before, my thinking was that changing a system of record is too complex; the return on investment is too far out in the future; you'll have this huge capital expense that'll need to be written off; you have tremendous operational and regulatory risk involved with the undertaking … Now there are ways of getting it done."* Others noted that this approach still carries significant risk. Another participant shared, *"To be honest, I think some tried to do this in the past, but now I think it's much more of a greenfield approach for many. Most firms are not doing the big-bang approach and are instead focusing on one segment and moving things over time."*

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– Executive

Adapting technology is enabling new models

Participants discussed how new business models, including more personalized customer service, banking- or insurance-as-as-service, and becoming a platform for a range of financial services, requires faster technology adoption.

- **Embedding finance.** In the future, credit, insurance, or investment services may be offered primarily at the point of customer need, integrated into nonfinancial apps or websites, rather than as stand-alone products.[17] Platform marketplaces like Amazon, Alibaba, and Rakuten are adding financial capabilities, including payments, credit, and insurance, to support both buyers and sellers, and these marketplaces are expected to play a growing role in financial product distribution going forward. As a result, some established financial institutions and fintechs and insurtechs are racing to integrate the services they offer into various platforms. For financial institutions, embedding products and services on platforms they do not own carries obvious disintermediation risk. But a summit participant emphasized, *"If you think about the competitive advantage today, the competitive advantage of origination, if you have your financial product*

"It's about being the application of convenience, and then bundling can work again, and in a way that it didn't in the past."

– Director

embedded in some software, or platform, that's a big competitive advantage."

- **Becoming a platform.** To maintain the customer interface, some institutions are attempting to build their own platforms. A director said, *"Many banks are trying to become a one-stop shop platform for financial services."* A board chair said, *"This challenge is at the core of how existing financial institutions are able to either compete in the future or not. Right now, customers are turning to unbundled services because they're simply more convenient, but there's no reason why we cannot develop the systems and offerings to be competitive. I believe firms will have to create a portal that gives access to a broad range of products and services, but all under one roof."* Such an approach could unlock new strategic growth opportunities. A director said, *"Once you have the data and access, you have customers interacting with your application several times per day, [which] provides opportunities to convince them they're in the right place to service all of their needs … It's about being the application of convenience, and then bundling can work again, and in a way that it didn't in the past."*

Expect more strategic partnerships

"We're investing, we're taking the partner approach, and we're looking at the acquisition side as well. Those are the tools we have in our toolkit, and we need to bring them all to the table."

– Director

Financial institutions are increasingly turning to partnerships or acquisitions to access or expand capabilities. Though insurtechs and fintechs are often framed as potential challengers to incumbent financial institutions, many are more likely to be partners than competitors. A director said, *"It's important to think of these newer entrants in two ways: those that are trying to take our revenue and compete against us, versus those that are really trying to work with us and get some of our technology budget. It's an important distinction, and the latter group is becoming increasingly critical to strategy."* Firms are experimenting with a variety of approaches in this area. A director said, *"We're investing, we're taking the partner approach, and we're looking at the acquisition side as well. Those are the tools we have in our toolkit, and we need to bring them all to the table to effectively respond to the challenges we're seeing today."* Participants discussed how the financial services ecosystem is evolving:

- **Some firms are making opportunistic acquisitions.** The pandemic resulted in a shakeout among fintechs and other new entrants. While some valuations remain very high, some firms have struggled, creating acquisition opportunities for established firms that remain in strong financial health. Acquisitions can be particularly challenging in financial

"The crisis has opened a lot of eyes about creating a good ecosystem. Picking good technology partners actually enables you to move very quickly."

– Participant

services, however, due to regulatory demands and bureaucratic internal processes. One participant noted, *"It's very difficult for financial institutions to connect to the outside. You see all these start-ups getting bought that are exciting and glamorous, and the pitch is great, but nothing ever really happens. That's because large firms are structured not to work well with small ones."*

- **Many are instead partnering or investing in challengers.** Given the challenges in realizing value from these acquisitions, partnerships may ultimately be the preferred path for all parties involved. Many financial institutions are eager for best-in-class capabilities provided by software-as-a-service and other technology providers, making partnerships attractive. One participant said, *"The crisis has opened a lot of eyes about creating a good ecosystem. Picking good technology partners actually enables you to move very quickly."* An insurance director said, *"We see a lot of different experiments in insurtech that are being funded by traditional players. How effective it will be remains to be seen. A lot of interesting partnerships are happening, and the entire value chain will be affected."*
- **Interaction with a growing array of partners and suppliers presents new risks.** The pandemic made firms acutely aware of their reliance on outside parties, and some are reassessing those risks as a result. In addition to partnering, many of the largest are looking to build internal capabilities, with a newfound confidence in their ability to move quickly and scale digital projects. One executive said, *"We have had third parties handle the crisis incredibly well, and we've had some where we've been incredibly disappointed. This will make us rethink what we build and what we buy. A couple of years ago, I would've said we'll be 80% buy and 20% build. That will not be the philosophy going forward."* As incumbents look to partnerships to accelerate their own transformations, it will be increasingly important to understand and monitor the risks. An executive said, *"Third- and fourth-party dependency and risk have taken on, in my view, a whole new scale and scope. This has really given us as a firm a view of where we are overly dependent or where we are jeopardizing our resiliency in the world of third parties."*

The changing nature of work has implications for talent and culture

Financial institution leaders are considering the future of work beyond the pandemic and the talent they will need to support technology transformation.

Should work changes be permanent?

> *"Third- and fourth-party dependency and risk have taken on, in my view, a whole new scale and scope."*
>
> – Executive

Technology and the pandemic are having a profound effect on the day-to-day operations of financial institutions and on the future of work in the sector. Business leaders are excited about the speed at which their organizations have adapted to a difficult new environment, and many do not expect a return to previous ways of operating. An executive said, *"Where we've changed internal processes to act at pace, made improvements to what we offer customers and pushed ourselves forward digitally, why would we go back?"*

Many firms are considering more flexible approaches to work. In November, Standard Chartered announced a plan to move many of its 85,000 employees to "permanent flexible working" and offer smaller, near-home offices for those that would like to use them: "Employees will have the option to select both time (number of hours and/or days) and location flexibility; this could be Standard Chartered premises, a near-office premises, or from home."[18] CEO Bill Winters said, "COVID-19 was an eye-opener. The old work conventions of banking—you are working only when you go into a specific building and sit at a desk—were out of date."[19] This flexibility could expand the pool of candidates available to financial institutions by making them more attractive for some prospective employees and expanding the geographic area from which to draw candidates.

> *"I'm firmly in favor of colocation, but that doesn't mean our workforce is."*
>
> – Executive

But some participants shared concerns about a more permanent shift to remote work. One executive said, *"I am a leader that believes in the value of colocation. It's how we build our culture. We know productivity is better with colocation. A lot of the problem solving we do are things that cannot be scheduled. I believe the best productivity happens organically, which is very hard in a remote working environment."*

In the end, the decision may be driven by employee preference. One executive said, *"I'm firmly in favor of colocation, but that doesn't mean our workforce is. I can say we're a colocation company until I'm blue in the face, but ultimately if our workforce says something different to us, we probably need to think a bit differently."* Indeed, there are signs that employees will be resistant to returning to offices and enjoy the added flexibility of working from home. A recent survey found that only 3% of finance professionals want to work entirely from the office post-COVID.[20]

Can financial services firms empower a transformation culture?

> *"What kind of culture do we need inside a large regulated financial institution to be reasonably successful at this?"*
>
> – Director

If technology is the main driver of competitiveness for financial institutions, internal culture and priorities need to be adjusted accordingly. An executive said, *"All of this comes back to culture and skills. If you want to deliver actual transformation, you need to build that ecosystem of people to help you get there."* There is an inherent contradiction in attempting to empower the fast-paced, innovative culture associated with technology companies while also trying to maintain the necessary risk profile of a regulated entity. A director said, *"That's actually the very challenge many of us have: we're trying to bring the culture from the technology world. It is a big challenge to bring that kind of culture into a large financial institution and be successful integrating it."* Another said, *"What kind of culture do we need inside a large regulated financial institution to be reasonably successful at this? Part of the reason big tech hasn't entered financial services is because they don't want to have the kind of culture in their organizations that it requires."* Financial services firms will need to strike this balance in a new working environment. An executive lamented, *"I worry about the loss of innovation in a remote working model. That's something that really comes from being together to work through ideas."*

What are the benefits of reskilling?

> *"Pretty much every job we're filling right now, even the most technical, are being filled internally."*
>
> – Executive

As technological adoption accelerates, financial services leaders expect to build more internal capabilities. Some firms have been rethinking how they train employees to address changing needs. According to an executive, *"Pretty much every job we're filling right now, even the most technical, are being filled internally. It is not always easy to do that. It can be hard to find the right people and skills … but it's given us proof that reskilling can occur and be successful. We just have to own it as business leaders and drive it."*

Reskilling can help retain employees while promoting internal culture and continuity. A participant said, *"Every new technology means new roles are created. The whole point of technology is to free up your people for the necessary high-touch work, and that really does happen."* An executive said, *"From a leadership position, shame on us if we think AI or technology transformation means job decimation. Shame on us if we think that, because it does not need to happen."* The same executive added, *"There are times when an outside hire is the only way, but I don't think it's utopian to think of reskilling as an ongoing possibility and responsibility for corporations. We have to deliberately take responsibility for workforce transformation."*

"Shame on us if we think AI or technology transformation means job decimation … We have to deliberately take responsibility for workforce transformation."

– Executive

Management will need to adapt: *"Skill transformation requires people learning new skills, but it also requires managers learning how to reskill others,"* noted one participant.

Evolving risks and opportunities require effective governance

The strategic importance of technology as a driver of competitive advantage and the scale of transformation efforts means that technology continues to command significant board attention and oversight. Boards must ensure technology transformation is getting sufficient investment and is tied to the broader strategy, while also ensuring risks are managed effectively. As financial institutions invest to upgrade systems that will drive competitiveness, boards need to remain abreast of rapidly changing possibilities. An executive stated, *"Institutions need to be moving faster. So, at the board level you need a clear understanding for what is going on in this space, and then it is about understanding the underlying approach to system strategy."*

An EY expert stressed the importance of good governance: *"If you think about the challenge from a governance standpoint, achieving your targets will take multiple years. Sprinkle in attrition challenges—most CIOs do not stay in their jobs more than 18 months—managing the digital agenda across that sort of time horizon comes down to governance. It's critical."* Boards will face difficult decisions regarding capital allocations as they attempt to balance long-term transformation with pressing immediate needs. A participant said, *"No one has the economics to invest in all of this at once … You can accomplish anything if you have enough funding, but in terms of making actual impact across the company while keeping your budgets, it's really hard."*

"Managing the digital agenda across that sort of time horizon comes down to governance. It's critical."

– EY expert

The role of the board remains one of oversight, requiring that management and the board focus at the appropriate level of detail. An executive said, *"The level of detail and time it would take to make a board member understand every single super impactful decision management is making—those things will never add up. To me, it becomes about talent and confidence in the executive teams and understanding how they think about these things and arrive at decisions. Those are very important, and the board is very well-positioned to judge those things."* Boards should also hold management accountable for stated objectives, costs, and timelines, participants said. One participant suggested, *"It's very fair to be reviewed and held accountable on whether the outcomes we projected and the price we're going to pay are accurate to what we deliver. The board's role is to say, 'What are the* *milestones? How are we doing on them?' And to review projects not for their beauty but for their on-time and on-budget results."* A director added, *"The digital transformation can go off in so many different directions ... If you don't have governance right from the start, it's just not going to work."*

> *"The board's role is to say, 'What are the milestones? How are we doing on them?' And to review projects not for their beauty but for their on-time and on-budget results."*
>
> – Participant

Others suggested boards could help spur management to continue looking ahead. A participant observed, *"Many incumbents are too busy being hunkered down trying to resolve their own bureaucratic processes in an environment where things are moving very fast around them."* Participants noted that firms may need to rethink incentive structures and other factors to keep management focused on emerging priorities and implementing change. A director said, *"Financial services is clearly behind when it comes to digital transformation, and that stems from a limited risk appetite for those movements, but also a combination of leaders not feeling comfortable making those moves and being complacent instead. You have to make sure change is a priority."* Experimenting with models and deploying technology at scale requires continuous monitoring and adjustment for new risks. A director said, *"As models evolve, it is important to monitor what that means for our risk profile. For example, the information we retain, how long we're retaining it, and the risks this introduces. The whole privacy aspect quickly creeps into a lot of it."* An executive recognized the need to move quickly, but also urged caution: *"It's something we pay attention to every day. The ways of developing with speed are ahead of the ways of doing it with safety. The price of getting it wrong—getting something into the marketplace that either doesn't work, breaks, or worse—is so great that we would rather be slower to market than ... have the speed and higher risk."*

> *"The ways of developing with speed are ahead of the ways of doing it with safety."*
>
> – Executive

***

A director observed, *"The more we go digital, the more the tendency toward winner takes all. Whether it's in capital markets or getting customers to look at your app as a front-page platform, every year you avoid investments you fall further behind. You can lose market share very quickly."* While the long-predicted disruption from technology-driven competitors has been slow in coming to financial services, the pandemic has provided an inflection point. It has pushed incumbents to move faster to upgrade technology and move at pace, while also further separating those among both challengers and incumbents who are well positioned for the future. Financial institution leaders will continue to face some fundamental decisions about strategy in this environment and what kinds of technology investments are most needed to support it.

Appendix: Summit Participants

In 2020, Tapestry and EY hosted the fourth Financial Services Leadership Summit. In the meetings and in preparation for them, we conducted numerous conversations with directors, executives, supervisors, and other thought leaders. Insights from these discussions inform this *ViewPoints* and quotes from these discussions appear throughout.

The following individuals participated in discussions for the 2020 Financial Services Leadership Summit:

Directors

- Paul Achleitner, Chair of the Supervisory Board, Deutsche Bank
- Clive Adamson, Risk Committee Chair, M&G; Non-Executive Director, JPMorgan Securities
- Homaira Akbari, Non-Executive Director, Santander
- Joan Amble, Non-Executive Director, Zurich Insurance Group
- Bill Anderson, Chair of the Board, Sun Life Financial
- Jeremy Anderson, Vice Chair and Senior Independent Director, Audit Committee Chair, UBS Group AG; Risk Committee Chair, Prudential
- Tony Anderson, Non-Executive Director, Marsh & McLennan
- Alastair Barbour, Audit Committee Chair, Phoenix Group Holdings, Non-Executive Director, RSA
- Win Bischoff, Chair of the Board, JP Morgan Securities
- Norman Blackwell, Chair of the Board, Nominations & Governance Committee Chair, Lloyds Banking Group
- Jonathan Bloomer, Chair of the Board, Morgan Stanley International
- Agnes Bundy Scanlan, Non-Executive Director, Truist Financial
- Jeff Campbell, Non-Executive Director, Aon
- Marcia Campbell, Risk Committee Chair, Canada Life Ltd; Non-Executive Director, CNP Assurances
- Jan Carendi, Non-Executive Director, Lombard International Assurance
- Alison Carnwath, Audit Committee Chair, Zurich Insurance Group
- Michelle Collins, Non-Executive Director, CIBC
- Bill Connelly, Chair of the Supervisory Board and Nomination and Governance Committee, Aegon and Risk Committee Chair, Société Générale
- Howard Davies, Chair of the Board, NatWest Group
- Tom de Swaan, Chair of the Supervisory Board, ABN AMRO
- Carolyn Dittmeier, Chair of Statutory Auditors, Generali

Directors continued

- Terri Duhon, Risk Committee Chair, Morgan Stanley International
- Tom Glocer, Lead Director, Morgan Stanley
- Tobias Guldimann, Audit Committee Chair, Commerzbank
- Robert Herz, Audit Committee Chair, Morgan Stanley
- Sheila Hooda, Risk Committee Chair, Mutual of Omaha; Nominating and Governance Committee Chair, ProSight Global
- Mark Hughes, Risk Committee Chair, UBS
- Bill Kane, Audit Committee Chair, The Travelers Companies, Audit Committee Chair, Transamerica
- Phil Kenworthy, Non-Executive Director, ClearBank
- Christine Larsen, Non-Executive Director, CIBC
- Nick Le Pan, Audit Committee Chair, CIBC
- Brian Levitt, Chair of the Board, TD Bank Financial Group
- Sara Lewis, Audit Committee Chair, Sun Life Financial
- John Lister, Risk Committee Chair, Old Mutual, Pacific Life Re, and Phoenix Life
- Monica Mächler, Non-Executive Director, Zurich Insurance Group
- John Maltby, Non-Executive Director, Nordea
- Trevor Manuel, Chair of the Board, Old Mutual
- Roger Marshall, Audit Committee Chair, Pension Insurance Corporation
- Callum McCarthy, Nomination and Compensation Committee Chair, China Construction Bank
- Richard Meddings, Audit Committee Chair, Credit Suisse, and Chair of the Board, TSB Banking Group
- Scott Moeller, Risk Committee Chair, JPMorgan Securities
- Chuck Noski, Chair of the Board, Wells Fargo
- Fausto Parente, Executive Director, EIOPA
- Debra Perry, Finance and Risk Committee Chair, Assurant; Non-Executive Director, Genworth Financial
- Marty Pfinsgraff, Risk Committee Chair, PNC Financial
- Brian Pomeroy, Non-Executive Director, QBE
- Peter Porrino, Audit Committee Chair, AIG
- Sabrina Pucci, Non-Executive Director, Generali
- Bruce Richards, Chair of the Board, Credit Suisse USA

Directors continued

- Philip Rivett, Non-Executive Director, Standard Chartered
- David Roberts, Chair of the Board, Nationwide Building Society and Beazley
- Sarah Russell, Audit Committee Chair, Nordea
- Manolo Sánchez, Non-Executive Director, Fannie Mae, OnDeck Capital, and BanCoppel
- Alexandra Schaapveld, Audit Committee Chair, Société Générale
- Alice Schroeder, Non-Executive Director, Prudential plc
- Kory Sorenson, Audit Committee Chair, SCOR; Remuneration Committee Chair, Phoenix Group Holdings
- Eric Spiegel, Audit Committee Chair, Liberty Mutual
- Doug Steenland, Chair of the Board, AIG
- Bob Stein, Audit Committee Chair, Assurant; Audit Committee Chair, Talcott Resolution
- Kate Stevenson, Corporate Governance Committee Chair, CIBC
- Katie Taylor, Chair of the Board, RBC
- Peter Taylor, Audit Committee Chair, Pacific Life
- Joan Lamm-Tennant, Non-Executive Director, Equitable Holdings and Hamilton Insurance Group
- Jan Tighe, Non-Executive Director, Goldman Sachs and Progressive
- Mark Weinberger, Non-Executive Director, MetLife
- Tom Woods, Non-Executive Director, Bank of America

Executives

- Antoni Ballabriga, Global Head of Responsible Business, BBVA
- Zelda Bentham, Group Head of Sustainability, Aviva
- Cathy Bessant, Chief Operations and Technology Officer, Bank of America
- David Chalk, Ring Fenced Bank Risk Officer, Lloyds Banking Group
- Martha Cummings, Former Head of Compliance Strategy & Operations, Wells Fargo
- Jim Cunha, Senior Vice President, Secure Payments and FinTech, Federal Reserve Bank of Boston
- Mark Cuthbert, VP General Manager of Strategy, Planning, and Innovation, USAA
- Lara de Mesa, Group Executive Vice-President, Head of Responsible Banking, Executive Chair’s Office, Santander
- Hervé Duteil, Chief Sustainability Officer, Americas, BNP Paribas

Executives continued

- Brad Hu, Chief Risk Officer, Citigroup
- Francis Hyatt, EVP, Chief Sustainability Officer, Liberty Mutual
- Rakhi Kumar, Senior Vice President, Sustainability Solutions, Liberty Mutual
- Scott Liles, Lead Executive, Spire Insurance, Nationwide
- Jed Lynch, Head of Americas, Sustainable & Impact Banking, Barclays
- Kara Mangone, Managing Director, Chief Operating Officer of Sustainable Finance Group, Goldman Sachs
- Tracey McDermott, Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance, Standard Chartered
- Ariel Meyerstein, Senior Vice President, Sustainability and ESG, Citigroup
- Tom Mildenhall, Managing Director, Global Head of Technology Partnership Development, Bank of America
- Alessa Quane, Executive Vice President and Chief Risk Officer, AIG
- Andy Rear, Chief Executive, Digital Partners, Munich Re
- Nick Silitch, Senior Vice President and Chief Risk Officer, Prudential Financial
- Alan Smith, Senior Advisor, ESG and Climate Risk, HSBC
- Jennifer Waldner, Chief Sustainability Officer, AIG
- Cathy Wallace, Senior Vice President and Chief Risk Officer, State Farm

Other

- Sandra Boss, Senior Managing Director and Global Head of Investment Stewardship, BlackRock
- Martin Chorzempa, Research Fellow, Peterson Institute
- John Kim, Founder and Managing Partner, Brewer Lane Ventures
- Clay Lowery, Executive Vice President, Research and Policy, The Institute of International Finance
- Hans Morris, Managing Partner, Nyca Partners
- Carl Robertson, Chief Marketing Officer, Temenos
- Simon Toms, Partner, Mergers and Acquisitions; Corporate Governance, Skadden

EY

- Omar Ali, Managing Partner, Client Services, EMEIA Financial Services
- Andy Baldwin, Global Managing Partner, Client Service
- Jan Bellens, Global Banking and Capital Markets Leader
- Kabari Bhattacharya, Associate Partner and EMEIA Insurance Sustainability and Resilience Leader
- David Connolly, Global Insurance Digital Leader
- Marie-Laure Delarue, Global Assurance Vice Chair
- Andrew Gilder, Assurance Partner and Asia-Pacific Banking and Capital Markets Leader
- John Latham, Global Client Service Partner
- Mike Lee, EY Global Wealth & Asset Management Leader
- John Liver, Global Financial Services Regulatory Network Co-Lead and EMEIA Financial Services Compliance and Conduct Leader
- Gillian Lofts, UK Wealth & Asset Management Leader, EMEIA Sustainable Finance Leader
- Ed Majkowski, Americas Insurance Sector and Consulting Leader
- Peter Manchester, EMEIA Insurance Leader and Global Insurance Consulting Leader
- Nigel Moden, EMEIA Financial Services Banking and Capital Markets Leader
- Kiet Pham, Principal, Americas Banking & Capital Markets Technology Leader
- Greg Raimann, Global Client Service Partner
- Marc Saidenberg, Financial Services Global Regulatory Network Co-Lead, Principal US Financial Services Advisory
- Isabelle Santenac, Global Insurance Leader
- Yang Shim, Global Financial Services Technology Leader and Americas Financial Services Consulting Deputy Leader
- Brandon Sutcliffe, Principal, Sustainability, Climate Change, Risk Management
- Marcel van Loo, EMEIA Financial Services, Regional Managing Partner
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About this document

About *ViewPoints*

ViewPoints reflects the network's use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants' comments appear in italics.

About the Financial Services Leadership Summit (FSLS)

The FSLS is an annual meeting addressing key issues facing leading financial institutions. It brings together non-executive directors, members of senior management, policymakers, supervisors and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring and trustworthy financial institutions. The FSLS is organized and led by Tapestry Networks, with the support of EY. *ViewPoints* is produced by Tapestry Networks and aims to capture the essence of FSLS discussions and associated research. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of senior management, advisers and stakeholders who become engaged in this leading-edge dialogue, the more value will be created for all.

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Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multi-stakeholder collaborations that embrace the public and private sector, as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable, and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

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EY is a global leader in assurance, tax, transaction, and advisory services to the financial industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients and for its communities. EY supports the BGLN as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

Endnotes

[1] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Comments of network participants and guests appear in italics.

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